



WENDY GREUEL
CONTROLLER

April 12, 2012

Mr. David Israel, President
Los Angeles Memorial Coliseum Commission

Dear *David* Israel:

Attached, please find my audit of the Los Angeles Memorial Coliseum Commission's fiscal operations that reveals a text-book example of what not to do when running a government agency. This audit demonstrates that management controls over Coliseum spending were weak or nonexistent, resulting in a dysfunctional and wasteful fiscal environment.

Some impacts of lax controls include:

- Advance payments of \$870,000 to companies in South America for events that never happened;
- At least \$75,000 in bonuses paid to employees outside of the City's payroll system that were not filed properly with the IRS;
- 42 instances worth over \$950,000 of untracked cash payments being made to technical staff; and
- A janitorial and security vendor was paid a total of \$4.8 million between January 2008 and June of 2011 with no contract.

The Los Angeles Memorial Coliseum Commission needs to implement the audit recommendations immediately to ensure that the Coliseum's unacceptable business practices come to a halt.

Sincerely,

WENDY GREUEL
City Controller



April 12, 2012

Wendy Greuel, City Controller
Office of the Controller, City of Los Angeles
200 N. Main Street, Room 300
Los Angeles, CA 90012

Dear Ms. Greuel:

Enclosed is our report entitled "Audit of the Fiscal Operations of the Los Angeles Memorial Coliseum Commission". This report was prepared on behalf of the Los Angeles City Controller by Sjoberg Evashenk Consulting, and includes our analysis, conclusions, and recommendations. We provided the draft of the report to the Los Angeles Memorial Coliseum Commission's (LAMCC) Interim General Manager and Interim Director of Finance on April 11, 2012 and considered their comments in finalizing the report. Generally, they agreed with our findings and recommendations.

Sjoberg Evashenk Consulting was pleased to work with the City Controller's Office on this important project, and appreciate the cooperation we received from the management and staff of the LAMCC.

Respectfully submitted,


Marianne P. Evashenk
President

THE EQUATION FOR EXCELLENCE

455 CAPITOL MALL, SUITE 700 · SACRAMENTO, CALIFORNIA 95814 · (916) 443-1300 · FAX (916) 443-1350 ·
WWW.SECTEAM.COM

Los Angeles City Controller

Audit of the Fiscal Operations of the
Los Angeles Memorial Coliseum Commission

April 12, 2012



Table of Contents

Executive Summary	1
Scope and Methodology	2
Summary of Audit Results	3
Auditee's Review of the Report	11
Background, Objectives, Scope and Methodology.....	12
Section 1. Commission Board Governance and Oversight.....	18
Section 2. Cash and Investments.....	25
Section 3. Revenue	36
Section 4. Compensation and Payroll.....	51
Section 5. Procurement and Contracts.....	58
Section 6. Fixed Assets and Resources	65
Section 7. Financial Reporting.....	69

Audit of the Fiscal Operations of the Los Angeles Memorial Coliseum Commission

Executive Summary

Background

The Los Angeles Memorial Coliseum Commission (LAMCC) was created in 1945 pursuant to Government Code §8300 under a joint powers agreement among three entities: City of Los Angeles, County of Los Angeles, and the Sixth District Agricultural Association (referred to as the California Museum of Science and Industry and most recently California Science Center) an instrumentality of the State of California. The LAMCC is a public entity governed by a nine-member Commission Board. It receives no public funding to support its operations and is intended to be a self-sustaining enterprise generating revenues from the use of the facilities. Under its lease with the State, the LAMCC operates two primary facilities. The Coliseum, originally erected in 1923, has hosted two international Olympics competitions, professional, college, and amateur sports including football, baseball, and soccer, innumerable concerts, events, and other public activities, and has served as the home of the USC Trojan football team for nearly 90 years. The second, a stadium facility, the Sports Arena, is an enclosed multipurpose arena facility opened in 1959 and has served as home court for a variety of professional, college, and amateur sports, as well as numerous special events such as ice skating, circus performances, concerts, dances, religious activities, and community events.

In 1996, the Los Angeles Memorial Coliseum Association (Association), a public benefit corporation, was established under IRS code section 501(c)3 “exclusively for the benefit of, or to carry out the purposes of, the Los Angeles Memorial Coliseum Commission...”. One of its primary activities is to operate the food and beverage concessions at the Coliseum and Sports Arena and is the designated licensee for its liquor licenses. Under agreement with the LAMCC, the Association contributes 44.1 percent of the gross sales on food and beverages to the LAMCC and it also provides other contributions and support to the LAMCC as determined by the Association Board.

Over the decades, the management, organization, and operations of the LAMCC varied. In particular, in 1988 the Commissioners hired MCA/Spectacor Joint Venture (MCA/Spectacor) to conduct the daily management and operations of the two facilities. Under this model, only two positions—the Chief Administrative Officer and the Box Office Manager—remained under the employ of the LAMCC and all others were employees of the contractor. In 1998, the Commissioners decided not to renew the management contract and to instead directly operate the LAMCC. At that time, the Commissioners hired as the General Manager the same individual filling that position under the MCA/Spectacor agreement, who in turn hired many of the individuals who also worked for the management company.

Up to the past three fiscal years, the LAMCC and Association combined financial statements generally reflected positive results from operations, from 2005-2006 through 2007-2008 showing gross revenues ranging around \$10 million with healthy financial reserves. However, beginning in Fiscal Year 2007-2008, the LAMCC began to experience negative financial results with

expenditures exceeding revenues—that year showing a nearly \$580,000 loss, and since then significantly declining gross revenues with Fiscal Year 2010-2011 not quite reaching \$7 million in gross revenues with expenditures remaining in the \$10 million range.

Over the past year, the LAMCC has experienced a significant turnover in executive management and has come under a number of legal and regulatory reviews and actions commenced by federal and state investigators, Los Angeles district attorney, and other oversight agencies involving LAMCC operations and practices, former employees, contractors, and promoters. Additionally, the LAMCC instituted civil litigation against former employees and promoters. Furthermore, the future structure and management of the LAMCC remains unsettled at the date of the end of our fieldwork, March 2, 2012. The LAMCC faces significant challenges in terms of its aging facilities and increased competition in the Los Angeles area from many event venues that offer more modern facilities. It is currently in active negotiations with a current lessee, the University of Southern California (USC), to execute a long-term agreement to manage and operate the LAMCC and to invest the millions of dollars necessary to upgrade the facilities. This agreement is one of three parts of the plan that USC deems required before a final agreement can be completed; the other two involve obtaining contracts with the State relating to parking and the term of the ground lease.

Scope and Methodology

The primary objective of this audit was to assess the LAMCC's overall control environment that should protect the entity's assets from loss, theft or misuse and foster a sound infrastructure to exercise fiduciary responsibilities. Specifically, the City Controller tasked Sjoberg Evashenk Consulting, Inc. to evaluate the LAMCC's control environment related to its financial and accounting activities and effective for management in four primary areas:

- Reliability of financial reporting
- Efficiency and effectiveness of fiscal operations
- Compliance with applicable regulations and controls to prevent unauthorized transactions
- Safeguarding of assets and resources

In terms of these areas, we evaluated whether the LAMCC had in place adequate controls in terms of governance and oversight as well as relating to essential business cycles including cash, revenues, expenditures, and property and fixed assets.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Fieldwork was conducted between December 2011 and February 2012. In conducting this audit we interviewed many of the executive, fiscal, and administrative management and staff of the LAMCC and the Association, assessed the primary business cycles, conducted tests of fiscal transactions, and reviewed numerous documents including all the Commission Board meetings

held from 2007 through February 2012. We also reviewed the laws, rules, regulations, policies, procedures, and manuals available and relevant to this engagement.

Summary of Audit Results

Successful public and private entities build business operations around a set of checks and balances, referred to as internal controls, as a means to ensure that the organization's resources are appropriately directed, monitored, and measured. Internal controls are intended to facilitate the organization's work and authority flows, establish accountability and consistency, protect its assets, and provide reliable and timely reporting with the intended outcomes to meet the mission, goals and objectives of the operations. Our review of the LAMCC revealed that up to the last half of 2011, there was a stark void in either formal or informal internal controls expected to be in place in a public entity—or in any successful and thriving business.

Generally, we noted that under the former General Manager there was an absence of definition and clarity of the LAMCC's mission, roles, and objectives. Specifically, little was written or formally communicated to LAMCC staff or the public in terms of entity-wide goals, objectives, or strategic plans. Further, on the operational side, there was a void of essential formal policies, procedures and protocols, and in practice even informal controls were often compromised. The *Tone-at-the-Top* was not suitable for a government entity. We found that the majority of the controls we tested were either absent or weak, and our tests revealed that these inadequate controls led to improper transactions, loss of LAMCC assets, improper activities, incomplete institutional records, and potential legal and regulatory sanctions.

The fundamental internal control and operational weaknesses we identified call for immediate action and will provide long term benefits to the LAMCC, irrespective of the result of its negotiations with USC to manage the Coliseum and Sports Arena. To fulfill the Commission Board's fiduciary responsibilities, and to assure that the best interests of the LAMCC are achieved, it needs to promptly implement the recommendations, whether LAMCC continues to directly manage the Coliseum and Sports Arena, or if the USC takes over management of the facilities.

The Interim General Manager who was hired in March 2011, observed and reported to the Commission Board early in his tenure a list including 22 perceived weaknesses in the operations of the LAMCC and Association. And in November 2011, an Interim Director of Finance was appointed. During the audit, we found that a number of corrective actions have been instituted to mitigate and resolve many of LAMCC's financial and operational problems. Some of these improvements include:

- Created Purchasing and Accounts Payable Policies and Procedures
- Ceased making cash payments for union employees working on events
- Eliminated issuing bonuses
- Conducting a physical inventory of fixed assets

Our review takes these areas, actions, and improvements into account in this report. As many of these changes are recent, including several resulting from issues we raised, we could not yet determine the adequacy of these actions to improve actual operations and controls. The key findings of the report are organized under seven topical areas as highlighted in the following.

Governance

- ▶ ***Commissioners have not assured that adequate controls were in place and allowed a Tone-at-the-Top unsuitable for a government entity. Further, the Commission Board delegated substantial control, authority and responsibility to the General Manager and required what appears to be only superficial reporting.***

Our review found that the Commission Board had not assured that the former General Manager define and communicate the mission, goal, and objectives of the LAMCC and had not established an enterprise risk control structure to ensure the integrity of the LAMCC operations and the appropriate communications structure. The Commission Board is the public's fiduciary and its more rigorous oversight of LAMCC operations and management could have ensured stronger controls or at least illuminated earlier the inappropriate activities allowed by these weaknesses or circumventions. The Commission Board essentially fully delegated the authority for LAMCC operations to the former General Manager with few elements to be brought to the Commission Board for approval. With this full delegation, the former General Manager established an unsuitable "do as I ask" tone-at-the-top that, combined with a complete absence of policies and procedures, created a dysfunctional and risk-prone culture. Although financial audits were conducted and submitted to the Commission Board, it did not formally create an Audit Committee until 2011 despite evidence that the LAMCC's finances were faltering in 2009.

Cash and Investments

- ▶ ***Contrary to JPA provisions, most LAMCC funds were maintained in commercial bank accounts.***

Although the JPA Agreement stipulates the specific funds established for the operating and capital funds of the Coliseum and the Sports Arena be held within the Los Angeles City Treasury, it appears that about July 1, 1988, the Commission Board allowed the funds to be moved to commercial bank accounts to facilitate operations upon selecting the management company to manage the Coliseum and the Sport Arena. However, when the LAMCC operations were moved back in-house in 1998, the Commission Board did not assure that the funds and accounts were moved back to City Treasury as stipulated in the JPA Agreement.

- ▶ ***The LAMCC operated without a formal investment policy and did not comply with JPA provisions in its cash management.***

We found no formal investment policy for either the LAMCC or its Association. Further, there was no evidence that the Commission Board had approved an investment policy or discussed the manner or amounts of funds to be invested in the City Treasury as required in the JPA Agreement versus those to be invested on behalf of the Association. The LAMCC's funds – that in 2007 and 2008 exceeded \$10 million – were invested by the former CFO outside of the City Treasury without a clear investment policy or oversight.

- ▶ ***The LAMCC inappropriately facilitated cash payments for labor provided at a variety of events.***

Between December 31, 2007 and August 7, 2011 there were at least 42 instances where cash was used to pay employees in the International Alliance of Theatrical Stage Employees (IATSE) union. The 42 cash “advances” ranged from almost \$1,300 to \$82,000, for a total of approximately \$955,000. The cash originated from either the LAMCC box office or from the bank as requested by the LAMCC accounting office. In either case, formal cash advance transfer sheets were prepared and signed by the cash custodian and the union steward. The LAMCC did not maintain appropriate records to support these employee payments. Further, there were no controls over the distribution of these funds so we could not determine whether the stage employees were ultimately paid with these funds, which of the employees were paid with cash, or how much or at what rate employees were paid. Further, the appropriate payroll tax withholdings, employer’s payroll taxes, and union pension contributions were likely not paid. As a result, the LAMCC is at risk and has set aside more than \$5650,000 to cover related potential liabilities.

Revenue

- ▶ ***When acting as the promoter for events, former executives may have put the LAMCC at financial risk and may have not appropriately involved the Commission Board.***

Over the years, the LAMCC acted as the event promoter to develop and stage events where it became liable for the costs and success of these endeavors. The former General Manager’s employment agreement required him to bring issues to the Commission Board for deliberation and approval events that place the LAMCC at financial risk. It is unclear whether certain LAMCC-sponsored events were deliberated and approved by the Commission Board or the level of detail and controls that were exercised by the Commissioners over such events. As a result, we noted at least two major soccer events for which the LAMCC paid at least \$870,000, combined, in advance to companies in Uruguay for events that never took place.

- ▶ ***Without policies, procedures, and established fee and revenue protocols, the LAMCC has not demonstrated reasonable or uniform event rent charges and all events are recorded and captured in the financial system.***

The LAMCC did not establish formal policies and procedures for booking events. We are told that the former LAMCC executives and managers negotiating events took a “let’s make a deal” attitude. The former General Manager, despite provisions in his employment contract that requires periodic assessments of fees, did not establish a fee, rent, or lease schedule, criteria for negotiating contracts or agreements, or requirements to execute full agreements or even written agreements for each event. In addition, the LAMCC had no system to track events from “cradle to grave” that would follow an event from inception and tentative calendaring through to final accounting and settlement. This tracking is needed to ensure that all events held are recorded into the accounting system and event files maintained.

► ***Not all event files included contracts and not all contracts were fully executed.***

Our review of event files found that not all of these files could be located and not all the electronic versions of the settlement statements could be provided as some were “written over” without saving the original version. Additionally, not all files included contracts and not all contracts were uniform. Several files we reviewed included a type of short-form letter agreement or even just a signed event settlement statement rather than formal contracts that would include all the relevant protections and stipulations. While most of these were written by an event manager and signed by the former General Manager, we noted an absence of legal review. In addition, not all contracts were fully executed—either missing the promoter signature or the LAMCC’s representative. Further, we noticed that some contracts were signed after the event took place.

► ***Lease and sponsorship agreements were not appropriately controlled and monitored resulting in loss of revenue and unauthorized contract execution.***

The LAMCC owns five small properties in Exposition Park and some generate modest revenues. It also generates income from licensing cell phone towers as well as more traditional ways such as signage, advertising, and sponsorship agreements. Although we found that several of these types of agreements were presented to the Commissioners, the prior administration did not establish adequate controls to ensure that all agreements were monitored for billing and payment purposes, up to date, and appropriately negotiated.

One example demonstrates the weakness in the LAMCC’s system is the “lease” of Exposition Parking Lot 3 to the State. The agreement on this property provides that the LAMCC would receive a share of the parking revenue collected from daily and special event use of 150 parking stalls in return for the State’s use of the property as part of the Jesse Brewer Park. The LAMCC received a total of over \$312,000 from September 1, 1997 through December 31, 2005—the term of the agreement. The agreement was to be revisited at the time of the renegotiation of the State’s ground lease for the entire LAMCC properties to occur in the 2005 time period. It was not included in these contracting agreements and the lease lapsed—however, the State made sporadic payments to the LAMCC between January 2006 and November 2009, totaling nearly \$90,600. Currently, the LAMCC is seeking to recapture past due payments of about \$750,000 for parking revenue and an additional \$7 million for the purchase, demolition, and improvement of those properties that it purchased on behalf of the State.

Another example of poor controls and circumvention of appropriate practices involves a sponsorship agreement that should have been between the Association and a large bottling company and instead was allowed by the former General Manager to be executed by the former Assistant General Manager-Events. This individual was not a designated representative of the Association, so therefore, not eligible to execute the contract. He instructed the sponsor to issue the \$70,000 annual payment to his personal company rather than the LAMCC.

Compensation and Payroll

- *Policies, procedures, and controls over personnel and compensation were weak and lacked consistency.*

The LAMCC did not establish compensation policies, duty statements, position descriptions, required skills or an organizational reporting structure for its employees other than the former General Manager's employment contract. We found the following range of compensation and payroll benefits were provided to LAMCC and Association employees.

Salary and Hourly Wages – Overall, the LAMCC paid its employees through two basic salary systems: the City Controller's Payroll System and two Association payrolls processed by an outside payroll service company.¹ Although the City payroll processing generally followed the Controller's guidelines, the two Association payrolls revealed:

- ✓ Some timecards lacked both the employee and supervisor's signature
- ✓ Marginal hand-written notes and recalculations were used to adjust hours paid
- ✓ Some hourly rates and payments were miscalculated resulting in both under and over payments
- ✓ Incorrect salary rates were applied against hours worked
- ✓ Overtime miscalculations resulted in unwarranted payments
- ✓ One employee was paid for working 25 hours in one day

Bonuses and Commissions – the former General Manager's employment contract calls for incentive bonuses for the former General Manager and his designees. Over the four years, 2007-2010, the former General Manager received the maximum bonus allowed under his contract--\$125,000 per year. Additionally, over the same period, LAMCC employees were paid bonuses ranging from \$250 to \$23,500 per year that were processed through the City Controller's Payroll System. Additionally, the Association issued bonuses to its employees as well as the former CFO whose annual bonus was paid through both entities. The provisions of the former General Manager's compensation agreement related to these performance bonuses allowed great discretion to the former General Manager to decide who and how much any employee was paid and we could not determine the basis for these bonus payments.

Additionally, we found more than \$75,000 paid to various employees in other bonuses that were processed through the LAMCC's regular operating account, not through the City Controller, during the 2008-2010 time period. Moreover, we found that the Association issued bonuses to individuals working for the not-for-profit corporation. For the three-year period from 2007 to 2009, these bonuses averaged in

¹ The LAMCC used two payroll system providers—ADP and the City Controller's system. The majority of the LAMCC's full-time employees were paid through the City Controller's payroll system and were salaried, while most of those paid through the ADP system were hourly employees.

total \$34,570 annually for 10 employees, with payments ranging from \$500 to \$23,000 each. The bonuses paid outside of the City Controllers Payroll System were not appropriately treated as compensation and no income tax withholding occurred as required by the IRS.

We also found that the LAMCC issued commissions and stipends to certain employees and an independent consultant based upon the generation of commercial filming fees, marketing of new business, and one \$5,000 commission paid to the former CFO for reducing the Coliseum's energy costs.

Auto Allowances – The former General Manager's employment contract includes an automobile allowance with a cap on lease payments of \$700 per month, but allowing for the cost of insurance and fuel. Also, while the LAMCC had not set forth policy or provisions for automobile allowance for other employees, we found six employees received auto allowances of \$400 to \$600 per month with three of these individuals reimbursed for automobile insurance and fuel purchases. Over the three-year period, 2008 through 2010, the LAMCC paid a total of \$20,500 in car payments (approximately \$600 per month) to the former CFO. The former Assistant General Manager–Events received a car allowance of \$600 per month, totaling \$22,200 over this period. The former CFO also was paid for automobile insurance and fuel for his vehicle. None of the LAMCC-paid auto allowances or expense reimbursements were reported by LAMCC to the City Controller and, therefore, these amounts were not included in the in the employee's City Controller issued W-2s. In contrast, auto allowances paid to the other three employees who received their allowances through the Association were included in their non-City Controller W-2s.

Health Care Reimbursements – Two individuals, the former CFO and the former Assistant General Manager – Events, were provided medical service reimbursements beyond the regular medical insurance benefits coverage or waiver program offered to other employees. The former CFO waived his benefits and struck a written agreement with the former General Manager for the LAMCC to be reimbursed for out-of-pocket health care costs up to \$6,000 per year in addition to his in-lieu waiver amount that was most recently \$225 per month. The second individual, the former Assistant General Manager – Events, was covered by the LAMCC's health insurance plan, yet he requested and received a total of \$4,096 over a five month period from October 2009 to March 2010 for massages and other medical treatments. We did not find any agreement between this employee and the former General Manager regarding these payments; however, the requests were approved prior to payment. This type of agreement was not offered to all employees and was not within the "mode, manner and procedures" of the City of Los Angeles.²

² LAMCC's Joint Powers Agreement stipulates that it shall operate in the "mode, manner and procedures of the City of Los Angeles."

Procurement and Contracts

- ▶ ***No formal processes were established for purchasing and the former executives allowed uncontrolled use of personal credit cards for LAMCC business.***

Until recently, the LAMCC had not established formal purchasing processes and protocols for its procurement and contracting practices. Specifically, former management had set forth no formal direction or policy to guide procurement—large or small—as we found no documentation related to purchasing limits, delegation of authority, or established processes to obtain approval for and to make purchases. Instead, it appears that employees at various levels were allowed to procure all types of equipment, goods and services as these individuals deemed needed without any formal request or approval process.

Further, we found the former General Manager allowed seemingly unlimited use of personal credit cards for LAMCC business with LAMCC executives and managers using personal credit cards to purchase thousands of dollars of goods and services purportedly for use and benefit of the LAMCC. In addition, the former CFO also allowed other LAMCC employees to use his personal credit card for LAMCC purchases. Credit card reimbursements often lacked receipts and provided only credit card statements as evidence of the expenditure. We could find little evidence that would suggest any level of control over purchases made using these cards other than an approval signature on the employee's reimbursement claim document.

- ▶ ***The LAMCC did not establish formal policies and procedures over procurement and contracting, and did not protect its best interests by ensuring competitive bidding and formal agreements that would ensure contractors were best qualified and skilled, insured, and performed at the desired level.***

Until late 2011, the LAMCC lacked formal or informal policies, procedures, or protocols related to contracting for goods and services and that practices for obtaining bids were inconsistent. Strong internal controls require established rules, policies and procedures guiding circumstances when competitive bidding is required—usually the type of project, dollar value, and complexity are elements included in such criteria. We could not identify any formal or informal set of criteria for bidding or pricing. Further, in situations where contracts would be appropriate, we found few formal agreements—a janitorial and security vendor was paid a total \$4.8 million from January 2008 through June 15, 2011 with no contract. Other individuals were paid thousands of dollars with no contract—thus, putting the LAMCC at risk with no protection that the project would be completed as intended, that the contractor had appropriate insurance, or held requisite licensing.

- ▶ ***Accounts payable operated with only informal controls and allowed “on demand” payments, inadequate separation of duties, and incomplete documentation.***

Our review of vendor files reveals that nearly all accounts payable expenditures were accompanied by a check request showing a form of approval such as a signature or initials. However, until recently, any procedural protocols in place were informal and the understanding among the accounting staff was to issue payments or prepare checks as requested by the LAMCC managers regardless of the supporting documentation. We

noted several questionable practices commonly followed “on demand” payments, preparing expenditure support documents after the fact, accepting photocopied vendor invoices, and reimbursing personal credit card expenditures without supporting documents. Also, most expenditures we reviewed lacked evidence of each of the three controls needed for a strong procurement system, a “three-point match,” which includes second-level authorization of purchase request, receipt of goods or services with independent verification of acceptance of the good, and an invoice or sales slip with approval for payment.

Fixed Assets and Resources

- ▶ ***Despite long term plans to preserve and refresh LAMCC facilities, practical strategies and plans have not been implemented nor has related funding been reserved.***

Even though the LAMCC established long-term site plans for the Coliseum, it has done very little to implement these plans; it has not secured funding to make the improvements needed to fulfill its agreement with the USC or to fulfill the vision the LAMCC has set forth. Its stated plan to generate needed funding through securing Naming Rights Sponsors has been unsuccessful. We have not seen other plans put forth to fund the estimated \$60 to \$100 million in needed upgrades and remodeling of the Coliseum alone; nor plans for funding the redevelopment of the Sports Arena area. As it stands, both facilities are in critical disrepair, sorely underutilized, and the LAMCC is not likely to meet its lease provisions with its primary tenant, USC.

- ▶ ***The Association’s critical assets—its liquor licenses—have not been appropriately managed and safeguarded to prevent sanctions and potential termination.***

The Association holds liquor licenses and the provisions for the use of these licenses are strictly enforced by regulatory authorities. At many events, the sale of alcoholic beverages, spirits, beer, and wine generate significant profits for the Association. However, the LAMCC has not always appropriately ensured that event promoters and users of the facilities follow the provisions related to where alcohol is served and consumed within the LAMCC boundaries as well as within Exposition Park. The LAMCC had not established sufficient controls to ensure minors are not served alcohol. In June 2010, the state Department of Alcoholic Beverage Control brought 11 counts of violating licensing conditions against the Association. Under a “stipulation and waiver” issued by the State, the Association opted to pay two \$3,000 fines in-lieu of losing the licenses and two licenses were each suspended for 15 days and a 12-month stay period was established based upon no further violations. Further, there were instances where the LAMCC allowed its liquor licenses to be used by others for private fund-raising purposes. Under California Alcoholic Beverage Control provisions liquor licenses are non-transferrable and may only be used by the entity holding the license and that the holder may not delegate or allow the temporary use of such as license. The LAMCC has taken steps to more closely monitor alcohol sales and no longer allows the loaning of its licenses.

- ▶ ***Controls over property, fixtures and equipment were weak and no physical inventory was maintained over these assets.***

The importance of safeguarding assets is a fundamental control to assure that theft, pilferage or obsolescence does not occur. LAMCC's efforts related to asset record-keeping was limited to posting the acquisition at the time of purchase and maintaining a depreciation schedule at a non-detailed level. Further, the LAMCC did not have a written capitalization policy or a process to tag and inventory these items and it also lacked the structure, policy, and logic related to tracking, costing, and safeguarding these assets. Further, because of the lack of formality and control over purchases, the LAMCC cannot be assured that all fixed assets it purchased were actually delivered to the LAMCC and are currently on-site, or may lack the documents needed to properly "book" items that were never appropriately recorded in the accounting records. The audited financial statements for Fiscal Year 2009-2010 values LAMCC's depreciable assets at approximately \$43 million. Additionally, a physical inventory had not been conducted of fixed assets.

Financial Reporting

- ▶ ***Audits of the LAMCC's financial statements were conducted annually but more information included in the reports would provide greater transparency and accountability.***

We found that over the period of our review financial statement audits were conducted on a timely basis until Fiscal Year 2010-2011 when the former auditors were released and new auditors selected. The LAMCC could make the audit reports more meaningful by adding Management Discussion and Analysis sections and other elements that enrich the information provided within the documents.

Auditee's Review of the Report

We provided the draft of the report to the LAMCC's Interim General Manager and Interim Director of Finance on April 11, 2012 and considered their comments in finalizing the report. Generally, they agreed with our findings and recommendations.

Background, Objectives, Scope and Methodology

Background

The Los Angeles Memorial Coliseum Commission was created in 1945 pursuant to Government Code §8300 under a joint powers agreement among three entities: City of Los Angeles, County of Los Angeles, and the Sixth District Agricultural Association (referred to as the California Museum of Science and Industry and most recently California Science Center) an instrumentality of the State of California. The Coliseum Commission entity (LAMCC), is governed by a nine-member board, and operates two primary facilities: the Coliseum—a stadium facility, and the Sports Arena—an enclosed multipurpose arena facility. The real property on which Coliseum facilities are located is owned by the State of California and leased to the LAMCC by the California Science Center; the most current agreement dated in February 2008 reflects a 49-year lease (retroactive to January 1, 2006). Under the two State land leases, from 2008 through 2054, the LAMCC must pay a base rent for the Coliseum in the amount of \$625,000 and, in the event a Naming Rights Sponsor is secured, it has to pay the State 3.125 percent of “increased revenues” generated per year. The rent on the Sports Arena is \$375,000 per year and includes Naming Rights Sponsor provisions at a rate of 1.875 percent of the increased revenues. Both agreements include escalation clauses beginning in 2016 and each year thereafter, the base rent increases following a number of economic indices. Few other provisions are included in the lease agreement.³

Under Government Code §8300 and the Joint Powers Agreement, nine members govern the Commission (Commissioners)—generally, three each representing the City of Los Angeles, the County of Los Angeles, and the State of California. The Commissioners are to meet at least monthly and elect from their membership a president each year.

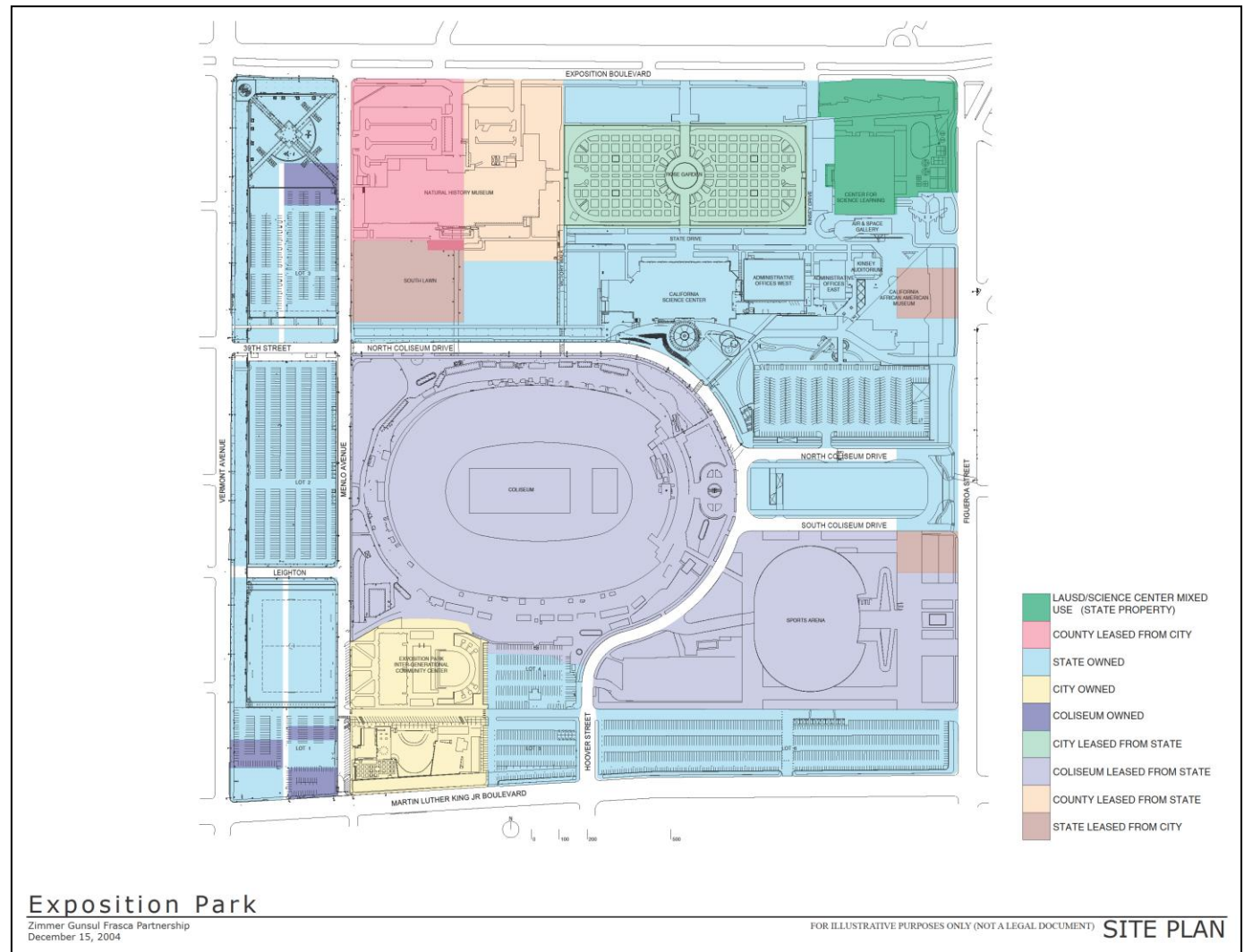
In 1996, the Los Angeles Memorial Coliseum Association (Association), a public benefit corporation, was established under IRS code section 501(c)3. This nonprofit, charitable organization was created “exclusively for the benefit of, or to carry out the purposes of, the Los Angeles Memorial Coliseum Commission...”. Its Articles of Incorporation set forth broad purposes and functions associated with contributing to the betterment of the LAMCC, facilities, and constituencies and stipulates that “The Association shall at all times be subject to supervision and indirect control by the Coliseum Commission. To this end, the Coliseum Commission shall exercise a substantial degree of direction over the policies, programs, and activities of the Association.”⁴ In practice, the Association operates the food and beverage concessions at the Coliseum and Sports Arena and holds the two related liquor licenses; it also guarantees financial support to the LAMCC—generally, 44.1 percent of the Association’s gross sales are contributed to the LAMCC.

³ Provision 24 of the Joint Powers Agreement Dated November 9, 1976 provides that “Should the option be exercised by the Commission to extend the term of the lease of the Coliseum, or the Sports Arena, this agreement shall be extended for an identical term as the extended term of such lease.” Thus, with the execution of the 2008 lease (retroactive back to 2006) with a term of the JPA is effectively extended through 2054.

⁴ Articles of Incorporation of Los Angeles Memorial Coliseum Association, Article V. C.

In addition to complying with State, County and City regulations and ordinances, the LAMCC must comply with other site specific provisions—particularly in terms of its facilities. For instance, the City’s “Coliseum District Specific Plan” (Plan) which is part of the South Los Angeles Community Plan includes a variety of provisions related to signage both inside and outside of the two venues. Further, the Plan specifies boundaries for alcohol sales and services. Changes and upgrades to the Plan must be approved both by the City Council and the Mayor. A map of Exposition Park is reflected in Figure 1.

Figure 1. Map of Exposition Park

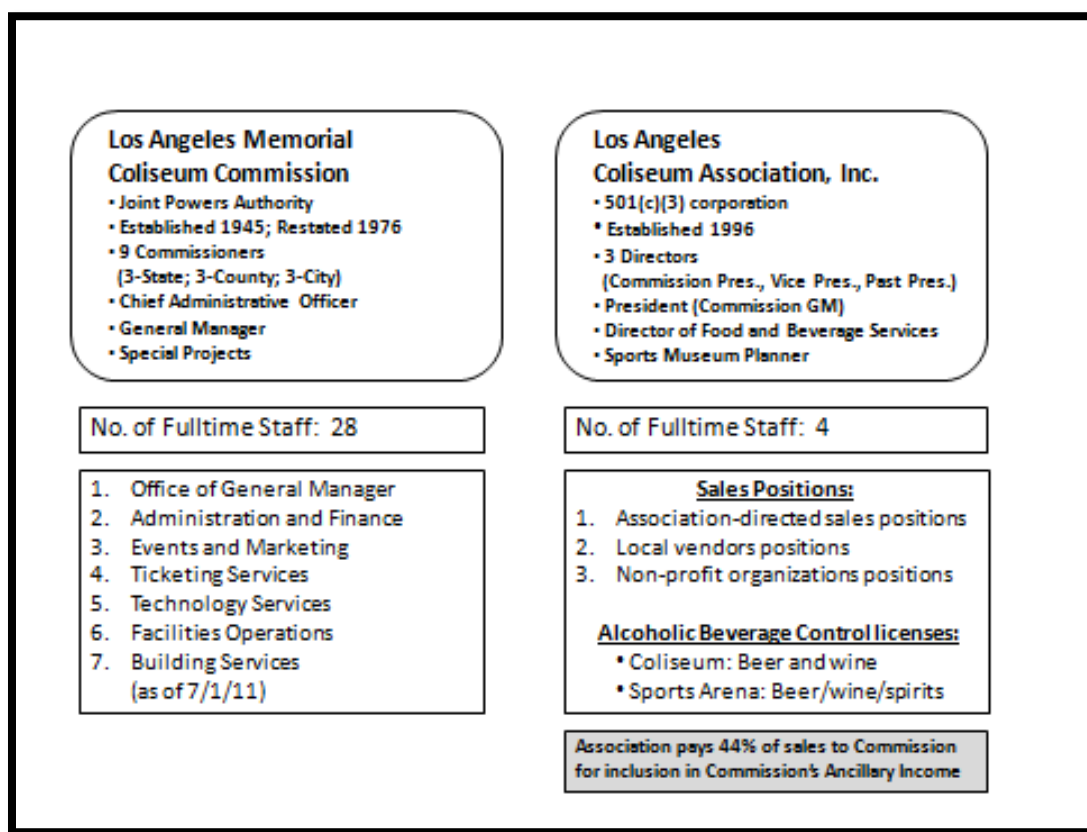


Source: LAMCC

Over the decades, the management, organization, and operations of the LAMCC have varied. For nearly four decades, up until 1986, two General Managers directed the operations of the LAMCC. In 1988, the Commissioners hired MCA/Spectacor to conduct the daily management and operations of the two facilities. Under that agreement, with the exception of two employees—the Chief Administrative Officer and the Box Office Manager—all employees of the LAMCC were staff of the contractor. A third individual was a consultant-employee who was

paid by the LAMCC. In 1998, the Commissioners decided not to renew the contract and to instead directly operate the LAMCC itself by hiring a General Manager and core employees. At that time, the LAMCC hired and executed an employment contract with the individual who served as the General Manager for the LAMCC under the MCA/Spectacor contract. The Chief Financial Officer hired at that time was also from MCA/Spectacor. Many employees working at the Coliseum and Sports Arena as MCA/Spectacor employees moved over and became LAMCC employees, and their payroll and benefits were then processed through the Los Angeles City Controller's payroll system. In addition, the LAMCC executed an agreement to allow employees to participate in the California Public Employees Retirement System. Figure 2 reflects the LAMCC's current structure.

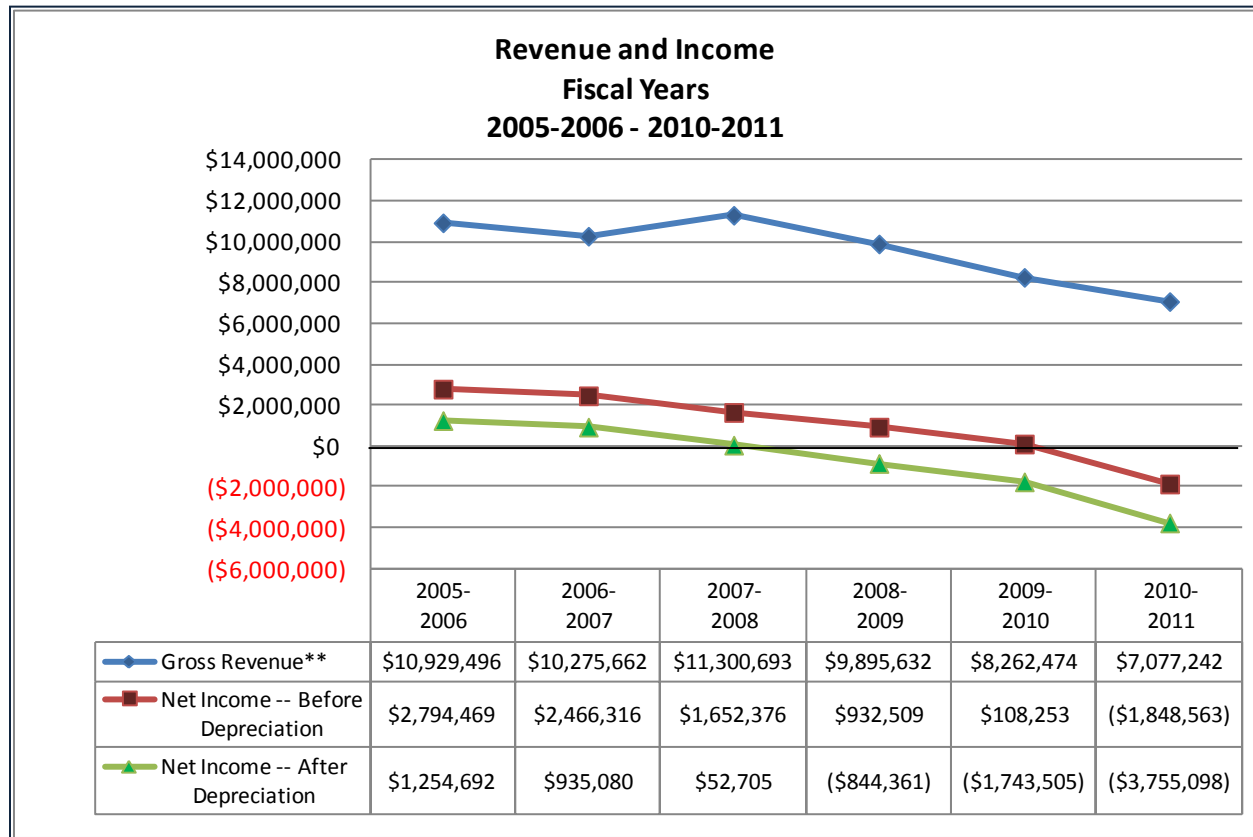
Figure 2. Los Angeles Memorial Coliseum Commission Current Organizational Structure



Source: Provided by Los Angeles Coliseum Commission

As an enterprise, the LAMCC is self-supporting and receives no public funding from any source. In Table 1, we provide the audited revenue and income of the LAMCC (that includes the revenue and expenses of the Association) over five fiscal years—2005-2006 through 2010-2011 (figures for the 2010-2011 fiscal year are unaudited.)

Table 1. Commission (and Association) Revenue and Expenses



**Gross Revenue is shown net of reimbursable expenses.

Objectives, Scope and Methodology

The Los Angeles City Controller's Office engaged Sjoberg Evashenk Consulting to conduct a GAGAS-compliant performance audit to evaluate the control environment in place at the Los Angeles Memorial Coliseum Commission. Generally, a control environment must be designed to ensure efficient and effective fiscal operations, reliable financial reporting, compliance with laws and regulations, and safeguarding of assets.

The City Controller outlined eight specific audit objectives:

1. Identify the significant/core fiscal activities of the LAMCC.
2. Assess whether the fiscal organizational structure is adequately designed to provide the effective and efficient delivery of its financial activities.
3. Assess whether adequate policies and procedures have been implemented over fiscal operations.
4. Determine whether the Coliseum's personnel possess the necessary skills to perform the core fiscal activities.

5. Determine whether the Coliseum has financial information systems that are accurate, reliable, and timely.
6. Determine whether the Coliseum has adequate processes to meet fiscal needs, goals, and objectives.
7. Determine if performance measures are in place to measure the efficiency and effectiveness of fiscal functions.
8. Determine whether the Coliseum's system of internal controls is adequate and appropriately monitored by management.

To conduct this audit, we identified and assessed the LAMCC and Association's primary business cycles to identify and evaluate the internal control structure. Particularly, we assessed:

- Governance
- Cash and Investments
- Revenues
- Payroll and Compensation
- Procurement and Contracting
- Fixed Assets
- Financial Reporting

Our audit fieldwork included the following:

- Reviewed the Joint Powers Agreement, Government Code, Public Contract Code, and other state regulations that apply to Joint Powers Authorities and not-for-profit organizations in terms of control provisions to appropriately safeguard and manage the LAMCC operations.
- Reviewed City Administrative Code and other criteria and best practices for the sound internal controls over public agencies.
- Gathered information, interviewed staff and conducted audit testing.
- Interviewed the Interim General Manager, Interim Finance Director, County Counsel, the former Chief Administrative Officer, various accounting, Box Office, food and beverage, and facilities staff members.
- Extended at the February 10, 2012 Commission Board meeting invitations to all Commission Board members to meet with us to discuss LAMCC operations— none of the Commissioners asked to be interviewed.
- Reviewed all Commission Board minutes for 2007-2011 and through February 2012.
- Requested and obtained available records related to LAMCC history, reports, plans, leases, and other information relevant to our review. We gathered a variety of information from numerous sources to obtain background information related to the issues.

- Conducted process walk-throughs of primary business cycles and identified processes and procedures and related controls.
- Reviewed and tested accounting records, vendor files, contract files, and event files.
- Obtained and tested payroll, tax reporting, and other records for both the LAMCC staff and Association staff related to payroll, compensation, bonuses, automobile allowances and benefits.
- Analyzed budgets and audited financial information over the period.
- Obtained publicly available court records related to the LAMCC's filing against former employees and Department of Alcohol Beverage records related to the June 2010 violations filed against the Association.

Prior to commencing our audit, several of the key executives and managers had terminated from the LAMCC, including the former General Manager and the former Chief Financial Officer. These two positions were replaced by an Interim General Manager and an Interim Director of Finance. Although these two interim officials fully cooperated with us during the audit, due to their short tenures with LAMCC, they did not have first-hand knowledge of past LAMCC practices and controls. Consequently, because of matters surrounding LAMCC's civil litigation, the former executives were not available for interviews and we had to rely of the Interim General Manager and Interim Director of Finance and the remaining staff to gather, identify or explain some information. When certain information or documentation could not be found, we state that fact in our report.

We provided the draft of the report to the LAMCC's Interim General Manager and Interim Director of Finance on April 11, 2012 and considered their comments in finalizing the report.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The remainder of this report details our findings, comments, and recommendations.

Section 1. Commission Board Governance and Oversight

The Joint Powers Agreement established in 1945 under California Government Code §8300 set forth a Commission Board consisting of nine members representing the three equal interest parties—the City of Los Angeles, the County of Los Angeles and the Sixth District Agricultural Association (the State of California’s interest, now known as the California Science Center). As the oversight body for the LAMCC, the Commissioners have the fiduciary responsibility to ensure that the assets and operations of the LAMCC are adequately protected and operated in the best interest of the public.

FINDING 1. COMMISSIONERS HAVE NOT ASSURED THAT ADEQUATE CONTROLS WERE IN PLACE AND ALLOWED A “*TONE-AT-THE-TOP*” UNSUITABLE FOR A GOVERNMENT ENTITY

During the period of our review, 2008 to present, we found an absence of definition and clarity of the LAMCC’s mission, roles, and objectives. We found no operating rules and guidelines established for the Commission Board and, with the exception of a 2001 employment contract with the former General Manager, the Commission Board had not established such rules and guidelines for the General Manager or for LAMCC operations. The former General Manager seems to have set a *Tone at the Top* of “just do what I ask” rather than any typical operating process that should be in place, and the Commission Board did not seem to take issue with the insulated and autocratic culture that was established.

We noted that little was written or formally communicated by the Commission Board to LAMCC executives and staff or the public in terms of goals and objectives or strategic plans. Further, there appears to be little effort by the Commission Board to ensure operational and decision transparency; as few documents were publicly distributed. In addition, up until recently there appears to be a lack of public disclosure of LAMCC activities and operations through annual reports or web-site transparency, such as posting board minutes or other on-going actions as would be typically required of a public entity.

Although the Commissioners held monthly Board meetings, much of the information provided by the former General Manager was verbal or handed out during the meeting, affording little time to review and consider the data provided. The minutes of the Commission Board meetings were brief and included few details or written reports. While formal reports and studies were prepared relating to the redevelopment of the Sports Arena property and the long-term site plan for the Coliseum, we found little substantial strategic planning or detailed information within the Commission Board minutes related to such major initiatives such as attracting an NFL team and efforts to sell the naming rights of the Coliseum, as would be expected given the significant implications of these matters in the long-term.

In relation to governance activities exercised over the LAMCC, we noted the following shortcomings:

- According to the long-term County Counsel serving the LAMCC and the Commission Board, over the years the LAMCC generally operated under the “mode, manner, and procedures of the City of Los Angeles” (as specified in the JPA agreement) and used the City Charter as guidance. He stated that to his recollection, the LAMCC had established formal policies and procedures prior to the management

agreement with MCA/Spectacor in 1988 to operate the Coliseum and Sports Arena. The Interim General Manager represents that prior to 1899, the Commission Board received quality reports that were presented in a professional manner. However, both we and the current LAMCC executives noted a stark absence of any written policies and procedures available at the LAMCC. As the public's fiduciaries over these facilities and the state land, the Commission Board has a duty to ensure that its selected General Manager has established the appropriate controls and policies and procedures to safeguard these assets and protect the public interests.

- Although the Nonprofit Integrity Act of 2004 requires that all charities with gross revenues over \$2 million establish an audit committee, the Association had not established an audit committee⁵ as required. Further, until recently, although the Commission Board had a standing finance and budget committee it did not establish an audit committee even though over the years it appointed various ad hoc committees particularly for negotiation purposes. The current Interim General Manager recommended in June 2011 that the LAMCC establish an audit committee. The Ad Hoc Task Force on Audit and Policy Compliance was formed in September 2011 and met six times between then and January 2012.
- The Joint Powers Agreement stipulates that the LAMCC file an annual budget with “the Board of Recreation and Park Commissioners and the Council of the City, the Board of Supervisors of the County, and the Board of Directors of the District, on or before the first day of June each year...”⁶ detailing estimated revenues and expenditures. According to the former LAMCC CAO, prior to her retirement in 2008, she submitted on behalf of the Commission Board the budget documents to these parties. However, although the Commission Board minutes do reflect that the budget was deliberated annually by the Commission Board, it is unclear whether any of this information was submitted to the required City, County or State entities after 2008.
- Neither the Commission Board nor the former General Manager ensured that the LAMCC comply with provisions of Government Code §87200 et. seq. These provisions stipulate that the LAMCC identify the officers required under the Code to file Fair Political Practices Commission Form 700s, “Statement of Economic Interests,” and ensure their compliance with the Code. Prior to the retirement of the former CAO, it appears that the Commission Board was kept abreast of these matters as we noted that the issue was brought forth in 2006 as memorialized in Commission Board minutes; further, we found that LAMCC records reflect that the former General Manager and both contracted executives filed their Form 700 yearly as required for the period of our review. However, despite the fact that the 2006 Commission Board minutes specifically state that the former Assistant General Manager-Events would be added to the listing for Form 700 reporting, he did not file the Form 700s for the years 2008, 2009, and 2010 until April 2011 when it appears that the current Interim General Manager identified this omission. This omission demonstrates that the Commission Board did not ensure the filing and review of these

⁵ Government Code §12586(e)(2)

⁶ JPA Agreement Section 12(h)

disclosures. Additionally, the forms submitted by the former Assistant General Manager-Events show apparent direct conflicts of interest between the individual and the entities with which he negotiated event agreements on behalf of the LAMCC. Further, the former CFO did not file his 2008 form until April 2011 although no inappropriate relationship appears to have existed.

Recently, LAMCC Counsel proposed Ethics policies for Commissioners and for LAMCC executives and employees. The two policies were presented for consideration and were adopted at the February 10, 2012 Commission Board meeting. These policies encapsulate a number of state code sections and include matters related to enforcement of the provisions, general rules, conflict of interests relating to gifts, contributions and influence, and ethics training every two years. For employees, provisions also cover other employment, contracting, confidentiality, and revolving door provisions.

The Commission Board has not ensured consistent administration and reporting under Fair Political Practices Commission regulations information related to the distribution of complementary tickets. The former General Manager brought this to the Commissioners' attention at the February 4, 2009 Commission Board meeting and worked with Counsel to present for the Board's adoption a policy to comply with the new FPPC regulations related to ticket distributions. The regulations require that the FPPC Form 802 must be completed and posted on an entity's website within 30 days of distribution of complementary tickets.⁷ The Commission Board minutes reveal that the Commissioners adopted the "Policy on Tickets or Passes to Events" at that meeting. Further, at the March 4, 2009 meeting the former General Manager reported that "the policy...had been implemented and will be posted on the Los Angeles Memorial Coliseum website." However, we are told that subsequent compliance with that policy was uneven as completion of these forms was inconsistent, reporting was not always complete, and the forms were not always posted to the website. Our review of the LAMCC website found no history of these postings; rather, we found Form 802s posted only over the past seven months.

- The Joint Powers Agreement states that "the Treasurer of the Commission and the Controller of the Commission shall be the persons who shall from time to time be the duly selected and acting Treasurer and Controller, respectively, of the City and, as such, shall have the powers, duties and responsibilities specified for such officers, respectively in the law."⁸ However, the County Counsel and former CAO stated that over their long history with the LAMCC, these two City officers have not been members of the Board nor had other official involvement with the LAMCC.
- Although the long-term County Counsel stated that he often met with new Commissioners to discuss issues such as Fair Political Practices Commission rules and requirements and answer other questions about the LAMCC, neither the Commissioners nor the former General Manager developed training materials or a "Board Book" that would provide background information, Commission Board policies and procedures, or other documents to assist new Board Members to become

⁷ Regulations of Fair Political Practices Commission, Title 2, Division 6, California Code of Regulations

⁸ JPA Agreement, Section 7.

acquainted with the duties, governance, responsibilities, and activities of the Commission Board or the LAMCC itself.

- Further, when the current Interim General Manager arrived in March 2011 he found very sparse records relating to Commission Board presentations and Commission Board meeting materials. He also stated that some Commissioners shared their frustrations about the lack of consistent reporting coming from the former General Manager including not being provided sufficient or consistent materials for Commission Board meetings.

Subsequently, the Interim General Manager implemented procedures to develop meeting binders that include substantial information for the Commissioners to review prior to the meeting date.

Recommendations

1. The Commission Board should develop a set of guiding and operational policies and procedures for its own activities. These provisions should include processes to ensure that all Form 700s are submitted on time by all those identified to file. Further, the Commission Board should identify a party to review the Form 700s to assure that no conflicts exist and follow-up if mitigation is deemed appropriate.
2. The Commission Board should guide efforts for the LAMCC to develop strategic plans and goals and objectives to ensure the long-term fiscal health of the entity.
3. The Commission Board should clearly communicate to the General Manager the level and timing of management reports, including the annual review of its audited financial statements, and require that information is provided in advance of meetings and in sufficient detail to allow for the adequate monitoring and evaluation of the LAMCC's operating activities and to facilitate making informed decisions.

FINDING 2. COMMISSION BOARD DELEGATED SIGNIFICANT AUTHORITY AND RESPONSIBILITY TO THE GENERAL MANAGER AND REQUIRED WHAT APPEARS TO BE ONLY SUPERFICIAL REPORTING.

In substance and in form it appears the Commission Board delegated much responsibility to the former General Manager requiring few matters to be elevated to the Commission Board level. Apparently, it was a common practice that the General Manager informally discussed operational and other strategic issues with the individual serving as Commission Board President at that time and often matters were decided in this non-public manner between the two.

As a governing board, the Commission Board selects the General Manager. In 1998, the Commission Board determined that the outside management (MCA/Spectacor management agreement) of the Coliseum and Sports Arena had "run its course" and the LAMCC could save the management company fees by bringing operational management and control again back in-house. At that time, the MCA/Spectacor General Manager had operated the facilities since 1994 and the Commission Board determined that he was the best candidate for the position. The Commission Board executed an employment contract with the individual and renewed the agreement again for three years in 2001 through 2004. Provisions provide that if the General

Manager is not notified prior to June 30, 2004 that his employment is not continued, he “automatically” continues after that date under the same terms and conditions.

Our review of the employment contract reveals that the provisions in many aspects mirror those found in the corporate MCA/Spectacor agreement. Specifically, the employment agreement includes several subsections of Section 3—“Duties of the Manager” of the MCA/Spectacor agreement of 1988 almost exactly, particularly in giving him authority to enter into leases, bookings, contracts and commitments, purchasing and contracting, hiring staff, and service contracts. The General Manager’s employment contract delineated broad duties such as “manage the Coliseum and Sports Arena in such a manner that those facilities equal or exceed the highest standard of operation of comparable public assembly facilities” and vaguely stipulated reporting of certain activities and required the Commissioners’ approval of events booked more than a year out, “self-dealing contracts,” contracts or commitments of unbudgeted expenditures, bookings requesting fee reductions or waivers, or events with a duration of longer than seven days. We could not identify any other provisions that would define the limits of the General Manager’s authority or stipulate requirements for contract or expenditure approval by Commissioners.

The long-term County Counsel characterized the employment relationship with the former General Manager as “total delegation.” However, with the appointment of the Interim General Manager, the Commission Board has taken the opposite approach and has delegated only limited authority to him, requiring a far greater number of transactions to be reviewed by the Commissioners.

Not included in the former General Manager’s employment contract are some provisions in the MCA/Spectacor agreement protecting the LAMCC, such as “Consultation Regarding Prices” requiring that the MCA/Spectacor “Manager shall regularly and from time to time report to and consult with the LAMCC in connection with the Manager’s establishment of prices, facility charges, rates and rate schedules for tickets, leases, licenses, use agreements, bookings, and other agreements for or connected with the use of the Stadium or Arena.” Additionally, the MCA/Spectacor agreement specifically stipulated that the “Manager and Commission shall, throughout the term of this Agreement, comply with all provisions of the Joint Powers Agreement and all applicable statutes, ordinances, laws, rules, regulations, orders and requirements of any federal, state or municipal government...” No such provision was included in the former General Manager’s employment contract.

We are told that one goal of the termination of the MCA/Spectacor agreement was to save the \$300,000 per year guaranteed management fee and the sizable performance incentives that were included in the compensation provisions:

MCA/Spectacor Contract

- 30% of “net income”⁹ up to \$500,000
- 35% of “net income” in excess of \$500,000 to \$1 million
- 40% of “net income” in excess of \$1 million up to \$1.5 million

⁹ Net income is specifically defined in the MCA/Spectacor agreement and is identical in many respects to the definition included in the former General Manager’s employment contract.

- 45% of “net income” in excess of \$1.5 million up to \$2 million
- 50% of “net income” in excess of \$2 million

While the former General Manager’s contract did not include the management fee, his compensation provisions also included generous incentive provisions. These tied annual bonuses for the former General Manager and others to a “net income” calculation similar to that established for the management contract. While it would appear that such a compensatory provision is intended to stimulate efforts to maximize the use of the facilities and generate robust gross revenues, it may have had unintended consequences. Specifically, the net income calculation was (generally) based on operating revenues less operating expenses (not to include such items as investment income, capital expenditures, depreciation, or debt service costs); thus, the General Manager had an incentive to keep costs low to maintain a profit, and in turn, increase the bonus pool. As a result, it appears the General Manager may have intentionally not fully staffed LAMCC positions, set positions at an inadequate proficiency level, and used casual labor in lieu of formal contracts and employees. Not adequately staffing functions or hiring underqualified or below needed competency levels, and using casual employees can be a contributing factor to the weak control environment we noted throughout the LAMCC’s fiscal and operational activities.

The financial results-based compensation incentives related not only to the General Manager but also provided for a bonus pool for “employees, consultants, and /or contractors as designated by [the General Manager].” The provision capped the total “incentive bonus” for the General Manager at \$125,000 per year with the total pool available for allocation to the other designees ranging from a \$150,000 cap in 2001-2002 to a \$170,000 cap in future years. Further, eligible amounts exceeding the total caps were allowed to be carried forward into future periods “for any year in which the base salary plus incentive bonus does not exceed the applicable yearly cap.” We noted that the LAMCC’s 2009-2010 Fiscal Year audited financial statements included a calculation of this carry-forward provision at June 30, 2009 to be \$2,122,601, but noted “management of the LAMCC did not believe it was probable that more than \$842,601 would be utilized in future years” and essentially froze the calculation at that amount. Subsequently, this amount was determined not to be a “vested” benefit, and the Commission Board removed the liability from the financial statements with the auditors noting that this liability at June 30, 2010 would be a maximum annual liability of \$295,000.¹⁰

Finally, we noted that the Commission Board had not established processes, nor is there record that it formally evaluated the performance of the former General Manager over his nearly 12-year tenure as an employee of the LAMCC. As the hiring authority, the Commission Board has the fiduciary responsibility to have a process to ensure that the General Manager is meeting expectations and performing the duties instilled in the employment contract. Without formal performance assessments, neither the Commission Board nor the public can be assured the General Manager meets the terms of the employment agreement.

In an effort to clarify roles and delineate levels of delegation, on April 13, 2011, the Interim General Manager submitted recommendations to the Commission Board to establish a formal approval process relative to business matters and transactions of the LAMCC. Included in the recommendations are protocols defining the parameters and types of activities requiring the

¹⁰ Los Angeles Memorial Coliseum Commission *Notes to the Financial Statements June 30, 2010, Note 10*

deliberation and approval by the Commission Board. While it appears that these proposed policies have not been formally adopted by the Commission Board, they have been implemented in LAMCC operations.

Irrespective of whether LAMCC continues to directly manage the Coliseum and Sports Arena or ultimately agrees to have USC take over these responsibilities, the Commission Board should assure that the best interests of the LAMCC are met by implementing the following recommendations.

Recommendations

4. The Commission Board should re-evaluate its employment contract with the General Manager and assure the provisions include specific tasks and expectations and tangible measures to evaluate if the General Manager is meeting expectations.
5. The Commission Board should continue to assure that the LAMCC General Manager submit to the Commission Board a complete and updated set of policies and procedures for LAMCC operations.
6. The Commission Board should establish a formal process to annually evaluate the performance of the General Manager and require the General Manager to assure the annual evaluation of LAMCC staff.
7. The Commission Board should adopt policies and set parameters for the LAMCC's fiscal activities and events that will be submitted to the Commission Board for deliberation, comment, and approval.

Section 2. Cash and Investments

We identified the significant and core fiscal activities of the LAMCC and assessed the fiscal organizational structure. It appears that the former management operated the LAMCC with virtually no formal policies and procedures guiding its various business functions. Further, it does not appear that the former management of the LAMCC exercised efforts to monitor, track, and measure its fiscal activities. Other than providing the Commission Board with basic financial statements and cash flow reports, we found little evidence of planning and setting strategic or operational goals and objectives to meet core responsibilities from a management perspective. Further, we found no clear communication of plans and initiatives that were presented to Commissioners, staff, or the public.

FINDING 3. THE LAMCC OPERATED WITHOUT A FORMAL INVESTMENT POLICY AND DID NOT COMPLY WITH JPA PROVISIONS IN ITS CASH MANAGEMENT

The Joint Powers Agency (JPA) agreement stipulates that the LAMCC shall deposit all funds with the Treasurer of the LAMCC, who shall place such funds in the [Los Angeles] City Treasury to the credit of the LAMCC. The LAMCC's Los Angeles Memorial Coliseum Association (Association)—as a not-for-profit corporation—is subject to a different set of rules related to investments. The Association's by-laws provide that its Treasurer shall disburse the Association's funds as the Board of Directors may order, and shall render to the Board of Directors and Chairperson, when requested, an accounting of all transactions and its financial condition. The Association's 1998 agreement with the LAMCC stipulates that 44.1 percent of the Association's gross revenues from its food and beverage sales, and its portion of those generated as a result of sales by subcontractor concessionaires, be transferred to the LAMCC, as well as 10 percent of all catering sales.

We found no formal investment policy for either the LAMCC or its Association. Further, we found no evidence that the Commission Board had approved an investment policy or discussed the manner or amounts of funds to be invested in the City Treasury versus those to be invested on behalf of the Association. Our review of Commission Board minutes and other LAMCC documents did not reveal when, if, or where investment practices were discussed.

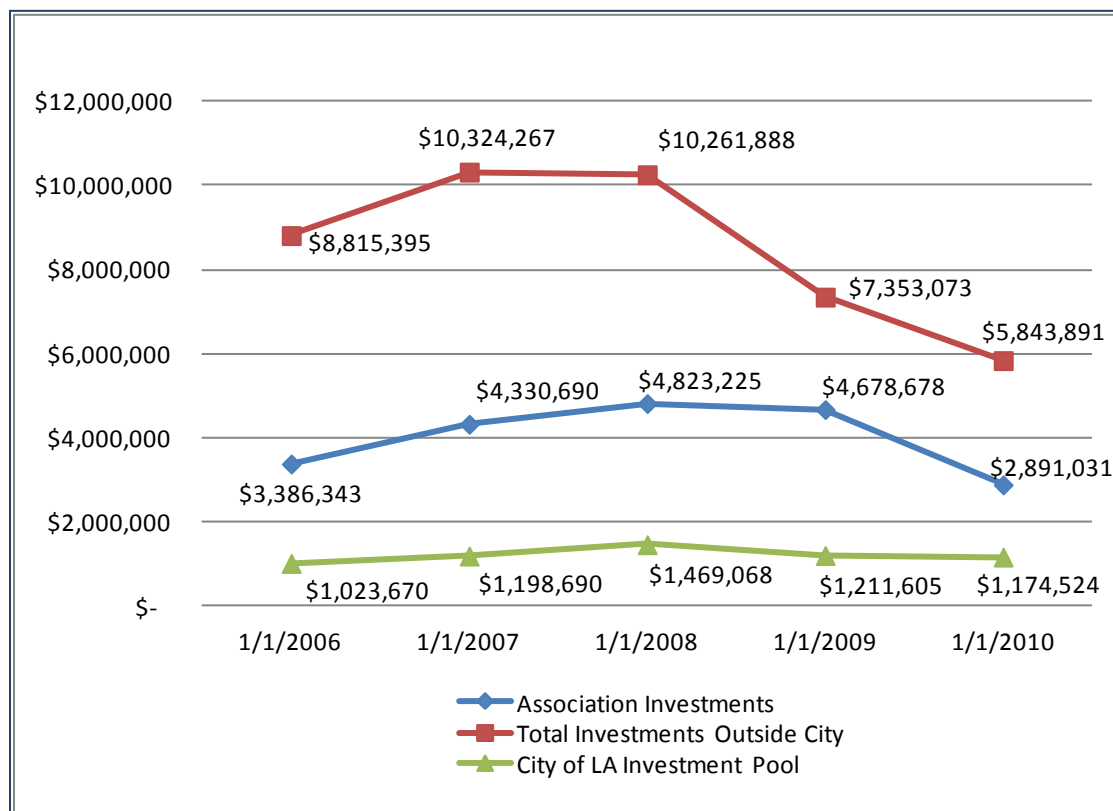
Similarly, we found no documents revealing any discussions by the Association's Board describing what types of investments its Treasurer was authorized to make. The audited Financial Statements and Independent Audit Report of the LAMCC and the Association combine the financial activities of the two entities for reporting and auditing purposes. Consequently, these audited statements do not distinguish revenues or expenditures made by either entity since they are comingled. The LAMCC's financial statements are audited each year by an independent certified public accounting firm.

The Cash and Investments note in the LAMCC's audited financial statements for the Fiscal Years 2006 through 2010 include statements that "Statutes authorize the Commission to invest cash and equivalents *other than funds held in trust*, in the City of Los Angeles investment pool" (emphasis added). The notes further state that the "Commission is authorized to invest funds *held in trust* in depository accounts, CDs, Commercial Paper and U.S. Treasury securities" (emphasis added). Neither the Notes to the Financial Statements nor the presentation of the Cash

and Investments balances within those documents specifically identify the amounts held in trust versus those held on behalf of the LAMCC.

As depicted in Table 2, the LAMCC's combined investments over the five fiscal years we reviewed were mostly invested outside the City, in U.S. Treasury obligations and Commercial Paper, and not in the City of Los Angeles' Investment Pool. In fact, City investments ranged from 10.4 percent to 16.7 percent of total cash and investments available to the LAMCC during this period.

TABLE 2. – LAMCC Cash and Investments (FY 2006 to 2010)



Association investments over the five fiscal years depicted in Table 2 ranged from \$2,891,031 to \$4,823,225, averaging \$4 million per year. Consequently, total LAMCC investments made outside of the City Treasury in violation of its JPA requirements ranged from a high of \$5,993,577 at June 30, 2007 to a low of \$2,674,395 at June 30, 2009, averaging approximately \$4.5 million per year. We believe that the LAMCC chose to treat its investable cash under the more flexible investment rules of its Association so to circumvent the JPA requirements of investing in the City Treasury.

Further, we were told that the former CFO occasionally briefed the Commission's Board Budget and Finance Committee that the LAMCC's overall investment returns exceeded those that would have been generated in the City Treasury.

Our review of the LAMCC's investment accounts held by UnionBanc Investment Services revealed that the former CFO was a fairly active investor authorizing trades of U.S. Treasury Bills and Commercial Paper with varying terms (e.g. 1 to 18 day Commercial Paper, and 2 to 12

month T-Bills). We did not assess whether investment returns were better or worse than those of the City Treasury over this five-year period because adequate records were not available.

Moreover, when the former CFO later utilized a Fidelity Brokerage Services account, he was named as the LAMCC's "advisor," and was also its authorized representative on the UnionBanc Investment Services account. However, the Interim Director of Finance was assured by both Fidelity Brokerage and UnionBanc representatives that the types of investments the former CFO made on behalf of the LAMCC (e.g. Certificates of Deposit, Commercial Paper or Treasury Bills) did not generate commissions or other fees to advisors.

In summary, the LAMCC made investments outside of the City Treasury without a clear investment policy or oversight. Notwithstanding the skills of the former CFO as an investor, managing a \$10 million public portfolio safely and securely takes a range of skills and effort that the LAMCC and Association focused on one person. In contrast, the Los Angeles City Treasurer's investment staff manages about \$7 billion in the City's Investment Pool on behalf of its many departments and commissions. Further, it operates under an approved investment policy that outlines its safety, liquidity and yield risks, requires competitive bidding of investment purchases and limits the percentage of certain types of investments in the overall pool (e.g. no more than 10 percent of the portfolio in Commercial Paper from any one issuer). Additionally, the City Controller's Office conducts an annual audit of the Investment Program's activities.

Because the Fiscal Year 2011 financial statement audit was not complete by the end of our fieldwork, we did not focus our analysis on the LAMCC's most recent investment activities. However, according to the Interim Director of Finance, the LAMCC's cash and investment balances had been significantly depleted by December 31, 2011. The remaining funds of about \$556,000 were transferred to the LAMCC's operating account to pay current obligations.

Recommendations

8. The Commission Board should adopt a policy directing LAMCC management to deposit all non-Association cash and investments with the City Treasury.
9. The Commission Board and the Association Board should establish formal investment policies for its funds.

FINDING 4. CONTRARY TO JPA PROVISIONS, MOST LAMCC FUNDS WERE MAINTAINED IN COMMERCIAL BANK ACCOUNTS

The JPA Agreement of 1976, Section 19, stipulates specific funds established for both the Coliseum and the Sports Arena within the Los Angeles City Treasury. Provisions set forth that "annual gross revenue accruing from the operation of the Coliseum and Sports Arena shall be paid and disbursed in the following manner..." into certain funds established in the City Treasury — the Coliseum Fund and the Sports Arena Fund—requiring that "all revenue hereafter derived by the LAMCC from the operation of the Coliseum [or the Sports Arena] or any properties or facilities constituting a part thereof or used in connection therewith, or any revenue derived by the LAMCC therefrom, shall be deposited in the Coliseum [Sports Arena] Fund forthwith..." Further, subsequent subsections of Section 19 describe specific accounts within these two funds (held at the City) including:

- Coliseum Operating Expenses Account
- Sports Arena Operating Expenses Account
- Coliseum Cash Operating Account
- Sports Arena Cash Operating Account
- Special Surplus Account

Within Section 19 of the JPA Agreement, provisions specify, “Funds of the Commission shall be kept in special funds and special accounts in the city treasury of the City separate and apart from the funds and accounts of the City and each commission, officer and department thereof.”¹¹

Thus, provisions appear clear that the LAMCC was expected to bank with the City Treasury. According to the former LAMCC Chief Administrative Officer, prior to the execution of the management agreement with MCA/Spectacor, LAMCC staff worked closely with the staff of the City and the monies of the Coliseum and Sports Arena flowed through the City-managed funds and accounts as specified.

The situation seems to have changed at the time that day-to-day operations transferred to MCA/Spectacor, when the agreement between the LAMCC and the contractor specially required the “Manager” (MCA/Spectacor) to open bank accounts outside of the City Treasury. Specifically, Section 8.01 of that operating agreement stated:

“Manager shall establish special interest bearing commercial bank account(s) for the benefit and ownership of Commission in financial institution(s) in the City of Los Angeles, diverse from any other accounts of the Manager or commission, that shall be known and designated as the “Stadium and Arena Operating Expense Account” (“Operating Account”) and the “Stadium and Arena Improvement Expense Account” (“Improvement Account”). Manager may, upon providing written notice to Commission, utilize multiple accounts in different financial institutions for each account. Manager shall establish each Account on or promptly following July 1, 1988.”

Therefore, it appears that the LAMCC’s banking relationship with the City was curtailed for the operations and improvements accounts as of July 1, 1988. Over the subsequent ten-year period, a portion of the LAMCC funds remained in the City Treasury and the payroll for the LAMCC’s two remaining employees was still handled through the City Controller. However, in 1998 when the management agreement was not renewed with MCA/Spectacor and the Commission Board decided to again take management and operational control “in house,” the banking relationships for the operations and improvement accounts were not restored back to the City Controller and Treasurer as would be required under the JPA Agreement. The LAMCC did and still does utilize the City Controller’s services for processing the payroll of approximately 30 permanent employees and uses a City fund as a clearing account for these payroll expenses. Hourly employees and some full-time staff working events as well as those providing food and beverage services are paid through non-city payroll and nearly all other funds, as discussed in Finding 3, are held in commercial bank accounts.

Despite the decision of the Commission Board at the time to not use an external management company to operate the Coliseum and the Sports Arena, it did not ensure that the operations were administratively changed to comply with the JPA Agreement. Specifically, Commission Board minutes did not reveal nor could any current employees provide documentation that would

¹¹ JPA Agreement Section 19 (7) Commission Accounts.

demonstrate support for the rationale for the continued practice of not using the funds and accounts in the City Treasury. In fact, no one we spoke with that may have had knowledge of the situation seemed familiar with the JPA Agreement provisions requiring the use of these accounts and funds with the City. Thus, the LAMCC is out of compliance with the JPA Agreement.

In February 2012, the LAMCC began reestablishing banking relationships with the City and is working to more closely comply with provisions of the JPA agreement.

Recommendation:

10. Before the LAMCC establishes investment accounts with the City Treasurer, it should assure that any interest accrued on its investments are credited to the LAMCC and not to the benefit of the City's General Fund.

FINDING 5. THE LAMCC INAPPROPRIATELY FACILITATED CASH PAYMENTS FOR LABOR PROVIDED AT A VARIETY OF EVENTS

With the assistance of the Interim Director of Finance, we identified at least 42 instances between December 31, 2007 and August 7, 2011 where cash payments were used for at least partial payment of employees in the International Alliance of Theatrical Stage Employees (IATSE) union. These cash "advances" ranged from almost \$1,300 to \$82,000, totaling approximately \$955,000. The 42 events include three annual large rave-type festivals, six Latin dances, and numerous other religious, concert, and miscellaneous other events. Event "settlement sheets" document that in many instances, all of the wages to be paid to the "stage employees" were paid appropriately through the LAMCC's ADP payroll process, while a number of other events paid these employees using cash advances. In other situations, a combination of both cash and ADP payroll methods were used to pay stage employees. We could not determine the rationale used by the LAMCC to determine when or what portion of payments were to be paid through formal payroll processes versus with cash.

We are told that gross amounts for "stage employees in Local 33, IATSE" to be paid with cash were calculated by a union steward who was a LAMCC employee and used union-branded timesheets that included each position type, number of hours, applicable union pay rates (both regular and overtime), and related amounts for vacation payments extended to gross totals. However, these calculations are not accompanied by individual names, social security numbers, or other identifiers to associate the cash payments to specific employees. The total amount of the payment was provided in cash to the union steward who was to pay the workers. The cash originated from either the LAMCC box office or was ordered from the bank by the LAMCC accounting office; in either case, formal cash advance transfer sheets were prepared and signed by the cash custodian and the union steward. Yet, we cannot determine whether the stage employees were ultimately paid with these funds, which of the employees were paid with cash, nor how much or at what rate the employees were paid.

Paying employees in this manner is not compliant with federal labor laws in terms of proper record keeping and reporting. Appropriate internal controls should assure that all employees are paid according to agreements, with appropriate evidence of service provided or hours worked and that an audit trail exists for all payments made to all individuals. It also fails to comply with

tax withholding provisions for employee federal and state income tax purposes, and fails to calculate and allow for the proper remission of state and federal employer payroll taxes. Overall, this practice puts the LAMCC in undue risk and liability positions.

Federal labor laws, particularly under the Fair Labor Standards Act (FLSA), sets forth “minimum wage, overtime pay, recordkeeping, and child labor standards affective full-time and part-time workers in the private sector and in Federal, State, and local governments.”¹² These provisions guide not only basic wage standards but also recordkeeping. While there are certain exceptions to FLSA provisions, none of the exception provisions apply to these stage employees; rather, they are for salaried, management employees and certain commissioned and other groups of workers. Under federal law, employers are responsible for ensuring that each employee working is paid at least minimum wage. The union agreement sets forth the wage rates by category of worker and minimum hour payment provisions for IATSE members working for the LAMCC. The union contract agreement specifies a “work week for all employees shall be Monday through the following Sunday. For accounting and payroll purposes, the payroll week shall consist of seven (7) consecutive days commencing at 12:00 a.m., on the first (1st) day of the work week”¹³ signifying a weekly payroll.

Further, Article XII of the collective bargaining agreement requires the LAMCC “in addition to all wages and other sums required to be paid hereunder, [the LAMCC agrees] to make contributions on behalf of each Employee to certain jointly trustee employee benefit plans established or to be established by the Union...” Thus, without an employee specific time card and formal pay instrument, the LAMCC cannot assure that employees are paid the wage amounts required under the Union agreement. Further, without appropriate detailed records and reporting, it cannot ensure that the requisite contributions are made to the retirement and benefit plans agreed to under these provisions nor can it complete the required monthly reports related to “Pension, Welfare, and Annuity Plan”.

According to guidance from the U.S. Department of Labor, provisions of the FLSA require “employers to keep records on wages, hours, and other items, as specified in DOL [the federal Department of Labor] recordkeeping regulations. Most of the information is of the kind generally maintained by employers in ordinary business practice and in compliance with other laws and regulations. The records do not have to be kept in any particular form and time clocks need not be used”¹⁰ but must be written and include certain personal information as well as timekeeping-related detail. When the LAMCC pays employees through its standard payroll systems, these record keeping provisions are met. However, the LAMCC cannot identify any records that comply with these requirements for employees paid by cash—a clear violation of the federal labor code.

Federal and California laws require that employers withhold income and other payroll taxes from gross amounts of pay earned by employees. Specifically, federal law requires the withholding of federal income taxes, social security, and Medicare taxes from employees’ wages and further requires employers to calculate and pay additional payroll taxes on wage amounts—these amounts are required to be remitted to the taxing authorities within specified time periods. The

¹² *Handy Reference Guide to the Fair Labor Standards Act*, US Department of Labor, Wage and Hour Division, September 2010

¹³ Article VIII Section 1, 2008 Collective Bargaining Agreement “L.A. Sports Arena/L.A. Coliseum Association and Local 33 International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts of the United States, Its Territories and Canada.”

State of California has similar provisions. Therefore, since the LAMCC has neither formal payroll documents nor employee information associated with these “cash payroll” expenses, it is not compliant with these federal and state payroll regulations and laws in those instances.

We understand that the former executives and many employees of the LAMCC were fully aware of the cash wage payment activities. These actions were formalized and conducted during the “normal” course of business, demonstrating a complete disregard and absence of appropriate internal controls, sound business management, and fiduciary responsibility. As a result, the LAMCC likely stands in violation of federal and state labor and tax regulations and may be liable for paying both the employer and employee portions of federal and state payroll and income taxes, penalties, and interest on these amounts. Further, because the LAMCC did not comply with record keeping and reporting requirements under the federal labor code, it could also be subject to penalties and sanctions under those provisions.

More importantly, the LAMCC cannot be certain that all stage employees who actually worked during the 42 events were paid appropriately. Therefore, it may also be potentially liable if stage employees worked and were not paid in compliance with the union agreement—including wages, vacation, and other benefits that are the employer’s responsibility. The LAMCC has filed a civil suit in this matter against certain former LAMCC executives.

The current Interim General Manager and Commission Board have taken steps to recognize the liability associated with the \$955,000 in gross wages paid in cash. When this issue was discovered, they formally notified the appropriate federal and state taxing authorities and have also reserved approximately \$650,000 to pay potential liabilities and penalties for failing to withhold and pay employer and employee payroll taxes on those amounts.

Recommendations

11. The LAMCC should continue to monitor the on-going payroll investigations to ascertain and report potential risks and liabilities that could accrue as a result of these practices.
12. The LAMCC should formally direct that no cash payments for salaries, wages, or other employee benefits be paid in the future.

FINDING 6. CASH COLLECTION CONTROLS WERE INFORMAL BUT GENERALLY ADEQUATE AND IN ADDITION TO THE IMPLEMENTATION OF FORMAL WRITTEN POLICIES AND PROCEDURES OTHER CONTROLS SHOULD BE CONSIDERED.

Box Office Operations

By agreement, Ticketmaster has exclusive rights for ticket sales for all Coliseum and Sports Arena events with the exception of USC sporting events—USC manages its own ticket sales activities. Ticketmaster provides the computer software that generates tickets as demanded for each event. Through this software, an inventory of all sold and unsold tickets for events is maintained as appropriate. Tickets for Coliseum and Sports Arena events may be obtained on-line, by phone, at Ticketmaster outlets, and at the LAMCC Box Office. All tickets and proceeds for tickets sold are handled through the Ticketmaster system which records all sales revenues

that include face ticket prices, convenience fees, Coliseum/Sports Arena facility fee, and credit card processing fees. These sales are reported electronically to the LAMCC and the funds not collected directly at the LAMCC Box Office, in accordance with various provisions of the agreement, are electronically transferred to the LAMCC trust bank account and held on behalf of the promoter. The LAMCC's portion of ticket sales is only a fraction of the amounts collected—generally only the facility surcharge and any credit card fees, and any royalties that might be negotiated with the promoter. Ticketmaster remits ticket sales revenues to the LAMCC each Friday. Tickets sold on-site can be purchased only using credit cards or cash and no convenience fees are charged on these sales.

Our review of activities related to Box Office ticket sales shows that for most of the time during our review there were no formal written policies and procedures, yet the practices in place were followed and understood by employees. Ticket sales were reconciled to the cash and credit card slips with appropriate review and signatures. Daily deposits were prepared by the Director of Ticketing or her immediate subordinate, and copies sent with the deposit are attached to the daily reports that are remitted to the LAMCC accounting office. We tested two days transactions and traced activity from sales, through to the accounting office, into the Ticketmaster reports, and to the bank. Cash was reflected separately from the amounts for the credit card settlement, were all traceable, and all amounts agreed. The Ticket Office has a vault and the cash for each drawer is kept in that vault. Daily receipts are secured in the vault until armed guards pick up the deposits on a daily basis during the week and as needed on the weekends.

These controls appear adequate and functioning as intended. The Interim Director of Finance has issued several formal policies and procedures related to Box Office processes and is continuing to work toward completing a comprehensive set that are to be fully implemented. We did not assess the adequacy of these procedures as they were only recently completed.

Ticket Sales Cash Advances

Past practices allowed that “cash advances” from cash generated from ticket sales can be picked up by the promoter from the Box Office. These transactions require that cash “advanced” must be requested using a pre-numbered “Cash Advance/Payment slip”. The practice has been that these forms are used to allow promoters to retrieve a portion of the cash collected by the Ticket Office before it goes to the bank or to pay for IATSE labor (see Finding 5). After the amount is counted out, the slip prepared, and signed by the event promoter (or the union steward), it is also signed by two LAMCC employees—either Box Office Manager or Assistant Box Office Manager and Box Office Assistant, Event Coordinator, or Finance Manager. The receipt is remitted with the daily sales report.

Sound internal controls would not allow a break in the custody of cash prior to deposit in the bank for any reason. All cash collected by the Box Office should be deposited intact. Although cash advances are generated from a written request, sound controls would discourage any transfer of cash without first depositing the cash and using a check or EFT transaction to ensure that the funds are formally transferred to the appropriate custodian without shortcutting the process. Alternatively, we are told that cash advances are part of “industry practices”; the rationale being that ticket revenues are the promoter's assets and LAMCC is just the agent/trustee. Although these practices would provide a promoter direct access to these assets through a cash advance from the ticket sales proceeds as long as the transaction is in writing, we

maintain that the LAMCC should retain custody of all funds until banked and then make disbursements to the promoter through traditional banking methods.

Box Office Physical Security

Although each cashier has an assigned “window” and change fund, none of the Box Office window drawers lock – or can be locked. The counters are very old and the drawers are no more than just pull out receptacles. Our observation shows that the drawers do not fit well into the cabinets. The Director of Ticketing, who has been in the LAMCC for 20 years, indicates that the drawers have never locked and it is simply a trust issue. To her knowledge, there has not been a cash shortage that would suggest inappropriate access to another’s drawer took place.

There is no security over the cash drawers other than physical presence of each cashier. Strong internal controls require not only that the cashiers sign for and count cash funds at the beginning and end of their shift—as is the practice at the Box Office, but also that cash drawers are lockable with provisions of restricted access—through some type of lock or cash register access code. Without such security measures, the cashiers, who are responsible and accountable for funds in their respective drawers, cannot be assured that these assets remain safe when cashiers must leave the physical location.

We brought this issue to the attention of the Interim Director of Finance and he informed us that he is in the process of getting locking drawers for the ticket window cash drawers.

Recommendations

13. The LAMCC should continue its efforts to develop and implement formal policies and procedures for ticket sales and box office activities including ensuring the installation of locks on Box Office window cash drawers.
14. The LAMCC should reconsider practices related to allowing “cash advances” to promoters and retain custody of all funds until remitted to the bank and formally remitted to the promoter.

FINDING 7. ALTHOUGH POLICIES AND PROCEDURES ARE INFORMAL, MOST CONTROLS APPEAR IN PLACE OVER FOOD AND BEVERAGE SERVICES CASH HANDLING BUT INVENTORY CONTROLS OVER THE WAREHOUSE WARRANT ADDITIONAL ATTENTION

The Association is responsible for the concession sales of food and beverages at nearly all events at the Coliseum and the Sports Arena. The Association was established in 1996 as a 501(c)(3) corporation to support the LAMCC. The concession operations at the Coliseum and the Sports Arena are run either directly by the Association, designated for-profit vendors under contract with the Association, or by approved local not-for-profit organizations that staff certain concession stands and pay the Association a portion of the gross sales generated. Of all sales generated by the Association-managed concessions, the Association pays 44.1 percent of the gross sales revenue to the LAMCC as event-related income. The Association retains the remainder and has discretion how those revenues are used within its stipulated purposes and mission. Those for-profit vendors under contract with the Association must pay 40 percent of the gross sales to the Association that in turn must pay 44.1 percent of these amounts to the

LAMCC. Not-for-profit entities approved to provide labor for concession stands at events are allowed to retain 12.5 percent of gross sales and the remaining proceeds realized by the Association are split with the LAMCC at the same ratio—44.1 percent.

The Association characterizes its monitoring of cash and revenue collections as having three components: theoretical inventory, cash control, and Point of Sales systems.

- Theoretical Inventory—For each stand or concession, a “stand sheet” is used to inventory all the supplies and products either brought in by the vendor or provided by the Association prior to the event. This inventory process includes verifying the starting inventory, reviewing requisition slips, and validating products received at the stand at the beginning of an event at which time it is signed off. At the end of the event another full inventory is performed and written on a “stand sheet” by the Stand Manager for all of the remaining supplies and products. The Stand Manager takes the sheet to the Cash Room where items are totaled, amounts of goods sold determined, and calculations made to compare cash balances to the amounts goods sold. Variances are researched and resolved. Inventories are based on common metrics such as counts—number of cups, buns, bags, cans, and containers.
- Cash Control—Monies for change funds are ordered by the Accounting Department (and delivered by armed car and guard) in advance of each event to the Cash Room. Event Bankers—bonded individuals who are typically bank employees—arrive four hours prior to the event and count the funds and prepare the tills. Tills are delivered by a security guard to each stand and are then verified by the Stand Managers. During the event, excess funds are removed from tills and counted and cash count slips replace the removed funds. The excess funds are placed in locked bags along with a copy of the till sheet and taken to the Cash Room by security guards. Bags are counted and verified by the Bankers when received. At the end of event, the tills and funds are counted at the stand and picked up by the guards and delivered to the Cash room where they are verified by the Bankers. Monies collected from each stand are compared to the calculation of the goods sold in the “theoretical inventory” for agreement. The change funds are counted and verified and deposit slips are prepared by the lead Banker; armored car personnel pick up these deposits and deliver funds to the bank. For smaller events, cash may be put in a vault overnight.
- Point of Sale—The electronic point of sale (POS) system serves primarily as a redundant control under existing circumstances. This cash register system provides a record of each item sold at a stand to be compared with the primarily manual accounting process resulting from the “theoretical inventory” to a physical count of the funds from the transactions that should agree with the bank. The most significant benefit of the POS is the ability to process credit cards for food and beverage sales. Overall, the Coliseum has POS equipment at 42 of the major stands while 20 smaller stands do not have this equipment. The Sports Arena has POS at all the stands.

Board minutes of September 7, 2011 reflect a presentation to the Commissioners related to food and beverage operations and controls. At the conclusion of this discussion, there were questions related to the POS system versus the inventory control systems. One Commissioner asked for an

“audit” of this issue to be presented to the Commission Board’s Budget and Finance Committee. The Interim General Manager stated that the LAMCC’s financial auditors at the time were engaged to conduct this review. The preliminary report provided to the Interim General Manager was deemed inadequate and the engagement was cancelled; this project was subsequently redirected to the newly appointed Interim Finance Director who was tasked to review the many aspects of Food and Beverage sales, cash management, and inventory procedures. This project is still in process.

Policies and procedures relating to food and beverage operations remain informal but physical observations by the Interim Finance Director suggest that processes are working as intended. While we did not physically test these controls, it appears that the Association’s controls over event-related cash handling and food and beverage inventory are adequate if followed.

Warehouse Inventory Control

The warehouse receives and stores food and beverage inventory purchased by the Association. For each event, products and supplies are requisitioned using a requisition slip from the warehouse and delivered as described under the “theoretical inventory” process. Physical inventories of the warehouse occur monthly and numbers are compared to those calculated based upon purchases (incoming), requisitions (outgoing), and goods returned to inventory. We understand that there are some discrepancies that are typically discovered in the monthly inventory. To put these discrepancies in context, the Association also prepares monthly calculations of sales minus cost of goods sold to compare with the related change in inventory.

Overall, it appears that the Association’s controls over event-related cash handling and food and beverage inventory generally appear adequate although better controls need to be exercised over the warehouse operations. The Interim Director of Finance noted that within the Association’s food and beverage processes, the warehouse inventory has the weakest controls in that the access to the warehouse is not strictly limited and former practices allowed employees to consume goods, such as water, on a casual basis. While the Interim Director of Finance has curtailed the removal of goods from the warehouse for employee consumption, the access to the warehouse is still not strictly limited.

Recommendations

15. The Interim Finance Director should complete efforts to review the various management procedures and controls over food and beverage cash collections and complete the formal policies and procedures over these activities.
16. The LAMCC should establish strict controls over the movement of all supplies, products and materials into and out of the warehouse. These policies and procedures should be formalized and well communicated to all employees.
17. The LAMCC should develop protocols to restrict access to the warehouse to better safeguard these assets.

Section 3. Revenue

The core business of the LAMCC and the primary responsibilities established for the former General Manager in his employment contract was that his “efforts shall be designed to maximize revenues to the Commission and to provide as wide a use of the Commission facilities as practical and feasible...”¹⁴ While LAMCC staff could not provide specific short- or long-term strategic plan or action agendas developed to drive LAMCC operations, activities of former LAMCC executives suggest that attracting an National Football League (NFL) team, obtaining a branding/naming rights sponsor for the Coliseum, and attracting new events and sponsors to the Coliseum and Sports Arena were substantial initiatives. While each of these activities could result in significant revenue, the LAMCC was not successful in its efforts to secure a “Naming Rights” sponsor or an NFL team. The fiscal health of the LAMCC rests on the generation of revenue from a variety of events; and, successful events occur with deliberate and sound management, appropriate planning, and adequate internal controls.

FINDING 8. CONTROLS OVER REVENUE ACTIVITIES AND CONTRACTS ARE WEAK AND MAY HAVE RESULTED IN LOSSES AND NONCOMPLIANCE WITH AGREEMENTS

The current USC Football Lease provides reliable revenue but the LAMCC may not be fulfilling its commitments under the agreement.

The University of Southern California (USC) has been the “anchor lessee” of the Coliseum for nearly 90 years, holding not only its home football games and summer and fall scrimmages at the Coliseum, but also annual youth events, soccer games, and other activities on the grounds. In the most recent lease between USC and the LAMCC, dated May 14, 2008, the provisions for USC home football games specified “rents” as a percentage of ticket sales and visual transmission revenues for home games, with a combined cap equivalent to 8 percent on 70,000 sold tickets upon which rent would have been payable. The Association manages the food and beverage concessions and retains revenues from these activities, sharing 44.1 percent of the proceeds with the LAMCC. In addition, the LAMCC is allotted a 7.5 percent royalty on merchandise sales. The Lease agreement provides that rents and revenues for all other USC events are to be negotiated in good faith each calendar year. The agreement requires that USC provide an initial payment to the LAMCC prior to the opening of the football season based upon ticket sales. Other payments are to take place to reimburse expenses during the season. Based upon final attendance and television revenue, USC is to provide a final payment in February following the close of the football season.

Rent estimates provided by the LAMCC reflect annual net revenues for the USC football seasons of approximately \$864,000 for the 2010 season and about \$958,000 for the 2011 season. The LAMCC’s Food and Beverage revenues add another approximately \$807,000 per year. Additionally, television-related fees also generate revenue to the LAMCC—for example, for the 2010 football season television revenue for most games averaged about \$25,000 with fees for the “big” game reaching over \$49,000.

¹⁴ Employment Contract of the former General Manager July 1, 2001

Other provisions of the USC Lease are also associated with the subject of revenues. The lease was executed anticipating that the LAMCC would secure a “Naming Rights” sponsor. Revenues generated from a naming rights sponsor were to be placed in a separate account to be used exclusively for the Coliseum capital improvements included in the USC lease agreement. Specifically, the requirement states that “All amounts paid by the Naming Rights Sponsor under such Tenant’s Naming Right Contract net of amounts ...[in two other provisions], shall be deposited into the SCIA [Sequestered Capital Improvement Account]...”¹⁵ The SCIA is formed under the contract to “fund the Capital Plan and Additional Improvements”¹⁶ ...specified elsewhere in the USC Lease. The Capital Plan includes an estimated \$60 million in critical upgrades, retrofits, and improvements to the Coliseum facility over the first 10 years of the contract.

According to records provided by the LAMCC, it identified approximately \$10.2 million in Coliseum projects to be counted toward its USC lease commitments since the execution of the lease through 2011. We understand that the major project included in this amount is the West Video Board and sound system totaling \$7.05 million¹⁷—of which approximately \$5.7 million is for the video board equipment—that was negotiated to be moved up in the queue of projects. We are told that the cost, technical and structural installation requirements, complexity, and related skills and expertise required for the audio upgrade were greatly underestimated, and likely also demonstrated the lack of controls over LAMCC’s procurement, bidding, and contracting that resulted in significant additional costs and organizational difficulties.

In addition, the LAMCC made improvements in compliance with the Facility Condition Analysis dated February 15, 2007¹⁸ (as required under the USC Lease) that included \$1.8 million for an elevator and approximately \$400,000 for the perimeter fencing project. While the LAMCC negotiated to accelerate the digital board project to earlier in the ten-year queue, we understand that not long after the lease execution, the LAMCC recognized that it was likely to have difficulty in securing a Naming Rights Sponsor in the near term. Further, we found no evidence of alternative business plans to generate the required funding or evidence of fund reservations to dedicate revenue for these purposes. The LAMCC’s plans on its financial ability to fulfill its contractual responsibilities to this primary tenant remain unclear. On September 7, 2011, the Commission Board unanimously voted to begin renegotiations of its lease with the goal that USC would assume responsibility for both operational management and capital obligations.

Recommendation

18. The LAMCC needs to develop plans to ensure it can fulfill its responsibilities under the USC lease, prepare formal alternative measures, or continue to pursue its efforts to renegotiate the contract to protect the LAMCC and public interests.

¹⁵ USC Lease 2008, Section 11.3(k)(i)

¹⁶ USC Lease 2008, Section 13.4

¹⁷ Approximately of \$3.4 million of the cost of the Video Board is financed for 60 months.

¹⁸ USC Lease 2008, Section 13.1

When acting as the promoter for events, former executives may have put the LAMCC at financial risk and may have not appropriately involved the Commission Board.

At times over the years, the LAMCC has acted as the event promoter. Whereas the majority of events that take place are sponsored and run by promoters that retain the liability for the event's success, during the period of our review the LAMCC at times also assumed the role as promoter (or co-promoter) accepting the liability for the costs and success of the events. While Commission Board minutes reveal that at each meeting there was some discussion relative to potential events and efforts to bring professional soccer and NFL football to the Coliseum, it is unclear what level of detail and controls were exercised over such events, as we could not identify any formal policy, procedure or protocols for managing and operating as the primary promoter—thus putting LAMCC resources at risk.

In particular, LAMCC sponsored South American soccer-related events that put the LAMCC at risk. Around 2003, the LAMCC became involved in agreements to bring matches with South American soccer stars to the Coliseum. For these events, the LAMCC would act as a promoter and be responsible for securing the “talent,” event-promotion, and logistics such as arranging and paying for transportation, lodging, and advertising. Documents supporting these events cannot be located, although the LAMCC staff note that in July 2003 the LAMCC wired two electronic fund transfers (EFTs) on subsequent days—for \$150,000 and \$50,000—to event partners in South America which were booked as “deposits” related to such games. While LAMCC staff stated that these events did not take place despite being rescheduled, there is no record of the deposit being returned in total or in part.

In addition to the 2003 effort:

- In January 2007 the LAMCC entered into a contract with an organization in Uruguay to bring South American soccer stars to the Coliseum. It is unclear whether this event is related or completely separate from the 2003 event. Our review of Commission Board minutes reveals that this matter was not brought before the Commissioners. This “one plus eight-year,” \$4 million agreement would annually bring a CONMEBOL All Star Team to the Coliseum. The only mention of this event at all in our review of Commission Board minutes is at the July 18, 2007 meeting, where staff informed the Commission Board that the CONMEBOL All Star match that had been scheduled for August 22, 2007 was rescheduled to September 12, 2007. We understand that this match also did not occur on that date, yet Board minutes for September 2007 do not mention the cancellation or rescheduling of this match. Our review of subsequent minutes does not reflect any discussion of this match or any related matters.
- In July 2008—nearly a year after the 2007 match was to take place, the former General Manager discussed the results of his trip to Venezuela noting “we successfully signed up a World Class All-Star Game to play December 28, 2008”. It is unclear whether this relates to the 2003 event, 2007 contract, or neither. Yet similarly, this event also did not take place nor do Commission Board minutes indicate the matter was ever raised again to the Commissioners.
- On September 22, 2008, the former General Manager signed an addendum to the 2007 agreement for the CONMEBOL All Star Team to what appears to be a rescheduling of the unplayed 2007 event to occur between June 1 and June 30, 2009. Like the other All-

Star matches, this one did not take place nor does it appear the issue was discussed with the Commissioners.

- On May 7, 2009, a new agreement was executed with a different Uruguay company for a “South American All Stars Team” event to take place July 4, 2009. It is unclear whether this agreement is in addition to the others or a restructuring of the 2007 contract. Commission Board meeting notes do not reveal that this agreement or this event was brought before the Commissioners. For this event, the LAMCC records show it wired two electronic fund transfers to South America as deposits related to this contract—one on June 12, 2009 for \$600,000 and a second on June 23, 2009 for \$70,000. Neither the Commission Board minutes nor the LAMCC event calendar note that this event was cancelled or rescheduled. We understand that the LAMCC has not received this deposit money back, either in part or in total, from the South American partner.

Furthermore, it appears as part of the May 7, 2009 agreement, secured by using a personal credit card, the former General Manager reserved a block of rooms at a major hotel on June 23, 2009 at a cost of \$56,070 for the anticipated July 4, 2009 soccer event. Whether a formal agreement was executed with the hotel cannot be determined. The LAMCC reimbursed the former General Manager for the entire amount. The event did not come to fruition, but the LAMCC incurred costs against this deposit; even though the exact accounting cannot be located, staff believe a portion of the costs relate to cancellation fees and other actual lodging costs. On August 9, 2009, the personal credit card of the former General Manager was credited only \$39,055.98 and he reimbursed the LAMCC for that amount on August 25, 2009—thus, the LAMCC incurred the balance, \$17,000 in local hotel expenses for an event that did not take place.

Concurrent with the LAMCC’s 2007 agreement for CONMEBOL All Star Team, the LAMCC also contracted with a “sports group” to “perform management services for the LAMCC for soccer matches” related to CONMEBOL. Under the contract, the sports group is granted 25 percent of the net profit from each of these matches plus 25 percent of the gross amount paid to the LAMCC to sponsor CONMEBOL and/or any media contributions, and/or sponsors obtained by the sports group. These amounts were in addition to the sports group’s 10 percent “intermediation fee” that, by provisions of the contract between the LAMCC and the Uruguay company, was to be paid by the Uruguay company. Like the other contracts mentioned related to the potential All Stars matter, the Board minutes do not include mention of the sports group’s contracts and thus were not brought before the Commissioners for approval.

The former General Manager’s employment contract directed that he “use his best efforts to secure, devise and promote, and recommend to the Commission” a variety of events to maximize revenues and promote the use of the Coliseum, Sports Arena, and other facilities. However, it also stipulated that as the General Manager he had the authority, on behalf of the LAMCC, to “enter into any lease, license, use agreement, booking or other agreement...having a term of less than one year.” The contract further stipulated that “prior to entering into any agreement involving Commission production of an event, or other arrangement involving potential high monetary risk to Commission, [the former General Manager] shall obtain the consent of the Commission’s President.” Additionally, the former General Manager was to report all agreements to the Commission Board at its monthly meeting and obtain Commissioners’ prior approval on any contracts exceeding one year. The contracts that we could obtain that related to

the anticipated CONMEBOL events at the Coliseum, as well as the sports group's contracts, included terms that were for periods longer than one year and entailed high monetary risk to the LAMCC. Yet, we see no evidence of the Commission Board formally approving them or of the Commission President's signature on the agreements.

The end result of the former General Manager's efforts to promote these events is that the LAMCC paid out \$200,000 in 2003 and another \$670,000 for pre-paid event expense deposits in 2009 for events that did not come to fruition. These amounts are now deemed as bad debts that will be written off, and the fiscal records and audited financial statements will reflect the corresponding \$870,000 reduction to LAMCC's assets on the Fiscal Year 2010-2011 reports. These examples reflect the real and adverse effect of insufficient controls over event bookings, contracting, expenses, record keeping, file management, and record retention.

Recommendations

19. The LAMCC should establish formalized, clear, and detailed policies, procedures, and protocols for managing and operating as the primary promoter.
20. The LAMCC should ensure that any contract that puts the LAMCC at risk or is longer than 12 months should be reviewed by legal counsel to ensure that the LAMCC is appropriately protected and agreements are clear.
21. The Commission Board should establish parameters dictating at what point LAMCC sponsored or promoted events are to be formally submitted for approval by the Commission Board.

Without policies, procedures, and established fee and revenue protocols, the LAMCC has not demonstrated sound or uniform event rent charges and ensured all events are recorded and captured in the financial system.

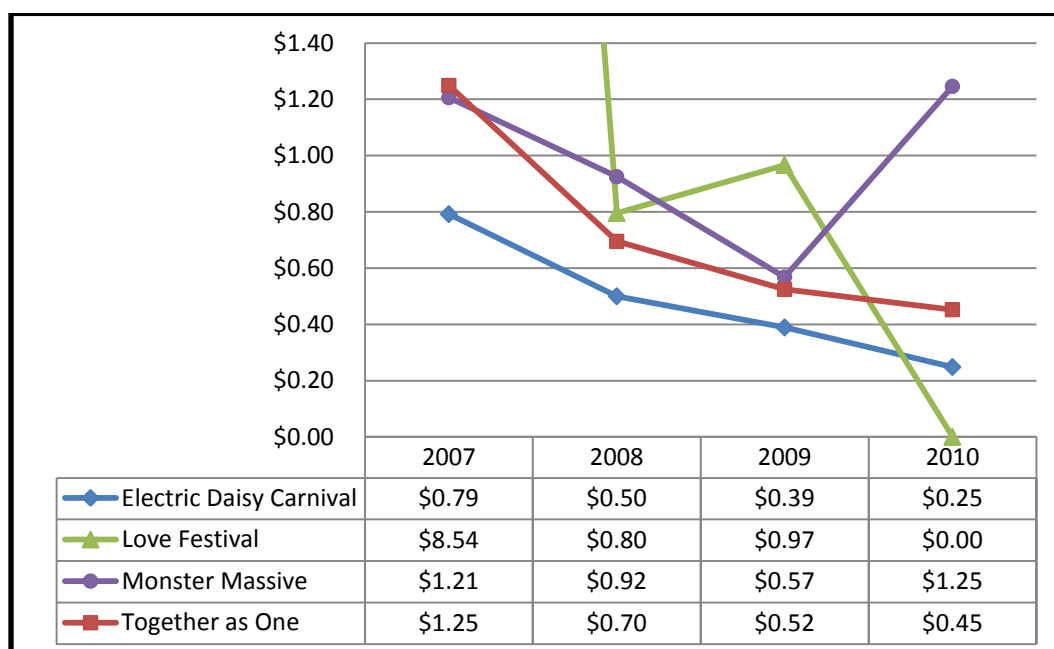
In addition to sporting attractions, the LAMCC generates revenues from a variety of recurring and one-time events—amateur and professional sporting events; concerts, festivals, dances; movie, television, and commercial filming and photo shoots; as well as religious, cultural, and public-benefit events. Revenues are generated primarily through lease and rent fees and indirectly through Association food, beverage, and souvenir sales. Essentially, promoters contract with the LAMCC to rent the venue and occasionally provide food and beverage services¹⁹. The model is that the promoter rents the facility and pays the LAMCC for costs such as labor, janitorial, set up, building staff and services provided and also pays for contracted services such as police, fire, emergency, security, and equipment rental. The risk related to the event success, such as ticket sales and facilitating and paying the performers remains with the promoter. Over our period of review, we noted a number of events occurring each year or on multiple occasions over a period—such as the Revlon walk/run, CIF football championships, Fourth of July fireworks event, Latin and other cultural dances, religious events, and professional South American soccer games. Some of the more significant repeat events held for a number of years included New Year's Eve "Together As One" dance, Electric Daisy Festival, and Monster Massive Festival.

¹⁹ LAMCC does not generate revenue from parking

Like most of the other business cycles we reviewed, we noted that the LAMCC did not establish formal policies and procedures for booking events. In fact, we are told that the former LAMCC executives and managers negotiating events took a “let’s make a deal” attitude. The former General Manager did not document or submit to the Commission Board periodic assessments of fees nor did he develop or establish a fee, rent, or lease schedule, criteria for negotiating contracts or agreements, or requirements to execute full agreements or even written agreements for each event. Further, although we found that the LAMCC created estimated expenses and captured actual costs incurred related to events to use in determining the final event settlement, there were no worksheets or documents in the files that demonstrated the “penciling out” of the event that would support the rent charged, revenues generated from food and beverage sales, or the costs estimated. While we found that event files included a checklist of documents to be completed and included, our review found many incomplete files.

Additionally, our review of event files and analysis of selected events reveals that rents and lease fees were not always uniformly applied. For instance, during the period of our review the Electric Daisy Festival, Together As One dance, Monster Massive festival, and Love Festival were recurring and had significant attendance, cost, and ticket sales—although rent revenues did not track with these trends.

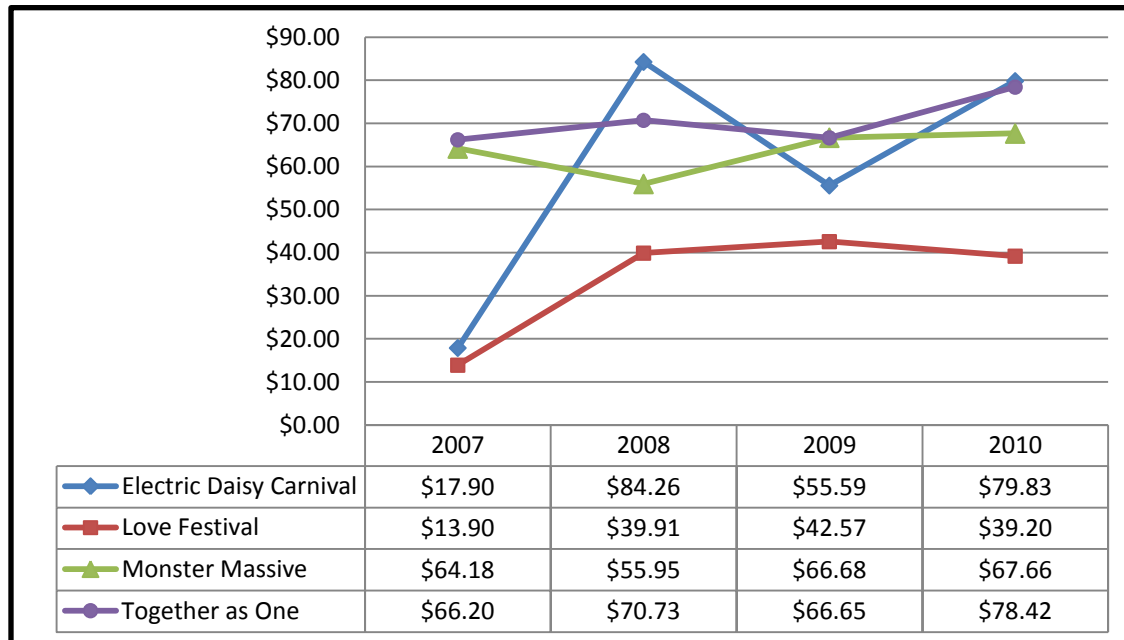
**Table 3. Analysis of LAMCC Rental Fees per Attendee
Four Key Events**



Our analysis of the four major events noted in Table 3 reveals that rent charged by the LAMCC varied from a high of \$40,000 for a one day event (Monster Massive 2007 and 2008) to as low as no rent paid at all (Love Festival 2010). Attendance at these events was also highly variable; only 5,027 attended Love Festival in 2010, while Electric Daisy Carnival attracted 161,049 people over two days in the same year for an average per day attendance of 80,524—more crowded than any other event. In contrast, over the four years reviewed, rent collected per attendee declined on average. Only one of these events shows a higher ratio of rent to attendee

in 2010 as compared to 2007, and that was Monster Massive and this is attributable to a precipitous drop in turn-out, down 54 percent from 2009 to 2010 with attendance of 44,015 to 20,065 respectively.

Table 4. Analysis of Gross Ticket Sales Per Attendee—Four Key Events



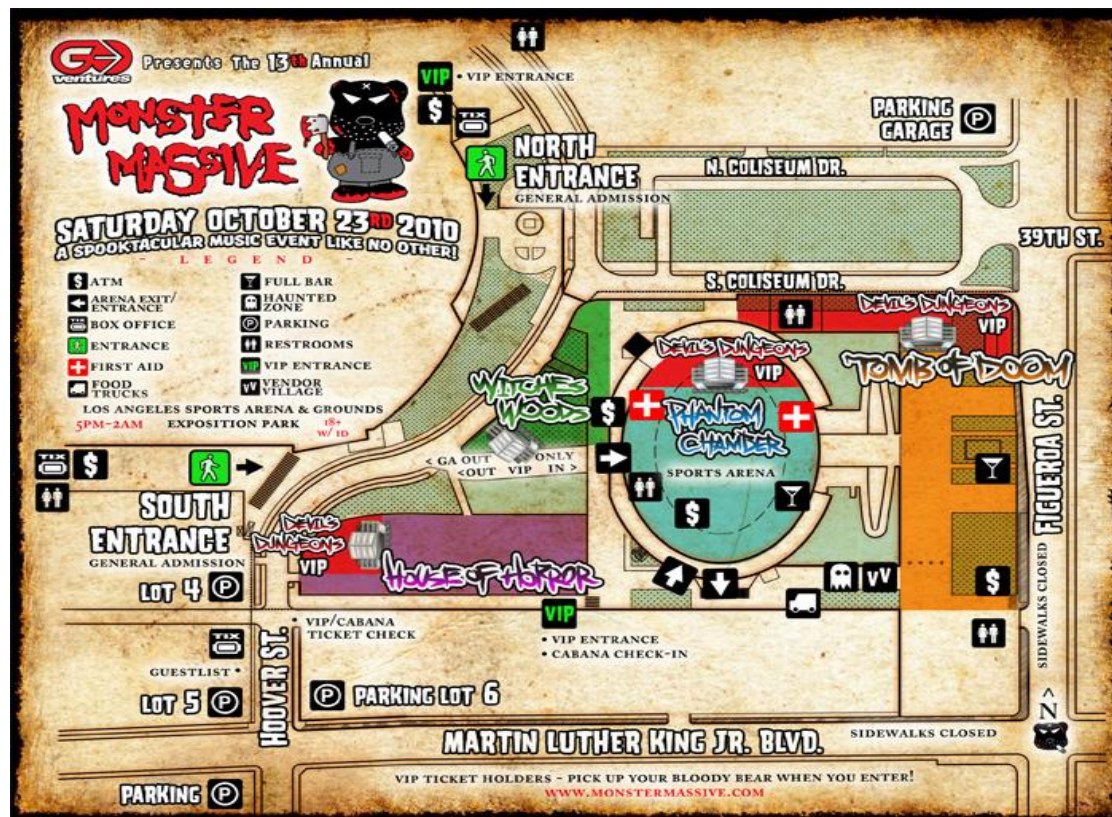
In contrast, while for the most part rent per attendee decreased every year, gross ticket sales per attendee generally increased, as reflected in Table 4. Over the years these “rave” or music festivals became increasingly popular. Most notably, the Electric Daisy Carnival started with attendance of 25,258 in 2007 and rose to 161,049 attendees in 2010, bringing in almost \$12.9 million in ticket sales. Even with a lower than expected turn-out for Monster Massive and Love Festival in 2010, these events resulted with higher gross ticket sales per attendee in 2010 than in 2007. Despite the fact that these events were generating millions of dollars more in ticket sales each year for the promoters, the rent charged by the LAMCC remained the same or even lower. In fact, we noted the Love Festival was not charged rent in 2010. While the waiver of rent for any event must be approved by the Commissioners, we did not see this approval reflected in Board minutes.

Of further note is that many of these events took place in more than one of the LAMCC venues, often spreading over much of the entire LAMCC premises. Examples illustrating the property usage for such events are provided in Exhibit 1 and Exhibit 2.

Exhibit 1. Example of Event Using More than One LAMCC Venue—Electric Daisy Carnival, 2009



Exhibit 2. Example of Event Using More than One LAMCC Venue—Monster Massive 2010



Despite the fact that these events covered more than one venue area, the LAMCC charged only what appears to be a single day rent (per day of use) for a single venue. Moreover, unlike some other events, the LAMCC did not appear to assess rental charges to these big promoters for extended hours or move-in and move-out activities. Other events we reviewed were typically charged from \$10,000 to \$20,000 per day for a single venue and were assessed “move in” or overtime charges of around \$3,000 to \$3,500 per hour for any time outside of the designated “day” rate.

Table 5. Rents Charged Per Day for 4 Key Events 2007-2010

	Rent Charged Per Day			
	2007	2008	2009	2010
Love Festival	\$ 35,000	\$ 7,500	\$ 7,500	No Charge
Electric Daisy	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Monster Massive	\$ 40,000	\$ 40,000	\$ 25,000	\$ 25,000
Together As One	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000

In addition to rent not being charged for the 2010 “Love Festival” we also noted another event that was not charged rent fees over the years—the July 4th Fireworks Displays—that used the Peristyle Plaza and the Press Box. Our review of the Commission Board minutes did not reflect a waiver of those fees as required by the former General Manager’s employment agreement that stipulates “Any event bookings, contracts or commitments involving a waiver or reduction of fees normally charged for use of facilities” and must receive the Commission Board’s prior approval. Thus, based on these events and additional examples discussed below, it appears there was a lack of consistency and control over the negotiation of rents for these events and an absence of information that would provide the rationale for these charges.

Further, we noted:

- Our analysis of more than 20 minor events held in 2008 through 2011 shows that rental rates ranged from \$5,000 for a dance with ticket sales of \$31,110 (16 percent of sales) to \$10,000 rent for a sporting event generating ticket sales of \$82,410 (12 percent of sales), to a religious event with rent of \$30,000 and ticket sales of \$104,000 (28 percent of sales). A number of events reflected a similar fee of \$10,000 per day, regardless of attendance or ticket sales. However, since there was no policy or fee schedule, it is difficult to determine how fees were established or whether these fees are appropriate.
- Other large sporting events included “flat base fee” plus a sliding scale of additional fees for attendance over set levels—for example, a four-day soccer event was charged a \$165,000 flat rent and expense fee that would ratchet upward by \$55,000 for attendance over 50,000, while another one-day soccer event was charged a flat fee of \$50,000 with a premium of \$1.50 for each attendee over 15,000.
- Two files we reviewed reflected a “flat fee” only, rather than rent charge. LAMCC staff explained that this charge was like an “all inclusive” amount—virtually capping the potential charges for the promoter for rent and building charges (those expenses incurred by the LAMCC internally for costs such as labor, janitorial, and security), but still ensuring that other billed expenses (those billed to the LAMCC attributable to the event)

would be covered by the promoter. Without having documents supporting the calculations used to develop the “flat fee” charge, it is unclear how the negotiations settled on this amount and whether it resulted in the LAMCC realizing appropriate rent revenue and expense recovery from the event.

Furthermore, we also noted that the LAMCC has not established a mechanism to track bookings “from cradle to grave”. Although the LAMCC uses an electronic calendar to “book” events, it has not established a system to link the events listed on the calendar to its other critical event management information files, such as settlement statements and the accounting system. Specifically, the LAMCC lacks a standard, consistent tracking method with some logical sequential numbering protocol for all potential events that would allow the monitoring and tracking of every event from the point of a tentative booking and calendaring through negotiations and, ultimately, the close-out and accounting settlement. We found there is no process to require the “opening” of a file or event record when an event is tentatively booked and/or a cost estimate proposed that would ensure that information for each flows from the event planners through to the finance office. Thus, there is no tool to formally monitor and link whether a calendared event actually took place, was rescheduled, or formally cancelled or to trace the related actions or activities that took place, such as documents supporting preliminary negotiations or the rescheduling of an event. Further, there are no formal processes or tools to link accounting files back to the booking/calendaring details to ensure that all events are captured, allow for identifying potential outstanding revenues, or have a record of events that might be consistently cancelled or abandoned. Without formal processes to track all events either tentatively calendared or proposed, events could take place without the LAMCC finance division being aware that rent should be collected or what costs should be expected. Events that have no associated costs to the LAMCC, such as filming or photo shoots are particularly at risk, and may be overlooked or may remain undocumented.

Not all event files included contracts and not all contracts were fully executed.

Our testing of event files found that not all files could be located, and of those that were located, they were not always complete. Further, we also noted that in a couple of instances where LAMCC staff could not locate the physical file, the electronic versions of the settlement statements could not be provided as they had been “written over” without retaining a copy of the original version. Additionally, not all files included written contracts, not all contracts were uniformly written, and many were inconsistently executed. In particular, a number of files we reviewed included a type of short-form letter agreement or even just a signed event settlement statement rather than formal contracts that would include all the relevant protections and stipulations. Additionally, we noted an absence of legal review. Several contracts were not fully executed—either missing the promoter’s signature or that of the LAMCC’s representative; in some cases, neither party signed the agreement. Further, we noticed that some contracts were signed after the event occurred.

The instances brought to light in our testing demonstrate a lack of formal processes to ensure that events are properly negotiated and executed, that rates charged are within established parameters, that the LAMCC is appropriately legally protected, and that revenues reflected the maximization of the facilities as intended under the JPA and the delegation afforded to the General Manager. The current LAMCC officers are aware of these issues and are considering steps to remediate these weaknesses. For instance, the Interim Director of Finance and the senior director of

operations are working to develop a rate sheet, event estimation sheet, contract template, and procedures to ensure all costs are captured and event expenses are covered. The Interim Director of Finance is also working with the accounting and event staff to ensure that event files are complete and closed out as appropriate.

Further, the Interim General Manager recommended a “Proposed Event Information (PEI) Form” be completed and submitted to the Commissioners for approval for proposed events. This form would include more than a dozen event-related elements that would demonstrate the rationale behind the development of the charges and the estimated costs. While the official policy has not been formally approved, the Interim General Manager has implemented this process as operating protocol since April 2011.

Recommendations

22. The LAMCC should continue to work toward establishing formal policies and procedures for booking events.
23. The LAMCC should establish an entity-wide event numbering system that would create a formal record from initiation of all potential events through the close-out or cancellation of each. This same numbering scheme should track events from calendaring through to the finance department and accounting system.
24. The LAMCC, with the approval of the Commission Board, should establish fee, rent, or lease schedules and guidelines and criteria for negotiating contracts or agreements.
25. The LAMCC should ensure that all contracts for events are in writing, and appropriately executed before any costs are incurred or space used.
26. The LAMCC should continue using the “Proposed Event Information (PEI) Form” and establish formal guidelines supporting the use of these documents.
27. LAMCC should ensure that all physical and electronic event files are complete and appropriately maintained and retained.
28. The LAMCC should work with legal counsel to develop contracts appropriate for the various events held at the LAMCC to minimize risk to the LAMCC and ensure the fair and appropriate treatment of clients.

FINDING 9. LEASE AND SPONSORSHIP AGREEMENTS WERE NOT APPROPRIATELY CONTROLLED AND MONITORED RESULTING IN LOSS OF REVENUE AND UNAUTHORIZED CONTRACT EXECUTION.

Although the State of California is the legal owner of the land upon which the Coliseum and Sports Arena are located, the LAMCC owns a number of small properties in Exposition Park and some generate modest revenues for the LAMCC. The LAMCC also generates revenues from licensing cell phone towers on its premises as well as through more traditional methods such as signage, advertising, and sponsorship agreements. As we noted in our reviews of other business cycles, although we found that several of these types of agreements were presented to the Commissioners for deliberation, the prior executive management did not establish adequate

controls to ensure all agreements were monitored for billing and that payment purposes were up to date or were appropriately negotiated.

In general, receipts or billings for agreements were not treated uniformly or consistently tracked. Some agreements were signed and the payment due to the LAMCC accompanied the contract execution; others were “automatically” paid with the payor mailing the payment to the LAMCC without needing to send a bill. For other agreements, the accounting office had to remember to bill for the payment. Because no policies and procedures were formally established to regularly generate invoices or set up accounts receivable, weak controls provided opportunity for missed receipts or contracts to lapse without notice.

One example that clearly demonstrates the weakness in the LAMCC’s system relates to the “lease” of Exposition Parking Lot 3. This is a small area on Menlo Avenue (now known as Bill Robertson Lane) that abuts California Science Center property and is currently part of Jesse Brewer Park. In August 1997, the LAMCC entered into an agreement with the State in which it resolved that the “Science Center desires to acquire, as soon as feasible, ownership of the Commission’s Property...” namely, Exposition Parking Lot 3 and other small parcels. The agreement included provisions that until the purchase by the State occurred, the LAMCC would be granted use of 150 “offset” parking stalls on State property and would receive a share of the parking revenue collected from daily and special event use of these stalls in consideration of the California Science Center’s use Parking Lot 3. Over the September 1, 1997 through December 31, 2005 term of agreement, the LAMCC received a total of over \$312,000 for the property rent.

However, the agreement anticipated that this lease (and the expected sale of the land to the State) and other matters would be included in the renegotiation of the State’s ground lease for the entire LAMCC properties to occur in the 2005 time period. Nevertheless, this matter was not included in the 50-year lease negotiation and the Exposition Parking Lot agreement and resolution of the matter was not pursued by the Commission Board or its former managers. Despite the lapse in the agreement, the California Science Center made sporadic payments to the LAMCC between January 2006 and November 2009, totaling nearly \$90,600. However, no further rent payments were received after that date, although the California Science Center continued to use the property. The Interim General Manager took this matter up in the summer of 2011 and brought the issue to the State’s attention. A calculation estimating past due payments equals approximately \$750,000. The LAMCC is actively pursuing these payments from the State. The lack of receipt of the rent payments over a two year period, particularly when the LAMCC revenues generally were declining, demonstrates significant weaknesses in revenue controls—particularly in monitoring mechanisms to ensure the receipt of all monies due to the entity.

Although it appears that the LAMCC facilitated the State in purchasing the parcels of land for about \$7 million on its behalf, it is unclear exactly why the sale of the parcel to the State is still outstanding because the LAMCC’s records on the matter are difficult to locate and are incomplete—a further demonstration of weak controls over file and record maintenance and organization, monitoring, and retention.

Another example of poor controls resulting in potentially inappropriate activities relates to a marketing agreement with a large beverage company. Specifically, the LAMCC sought to incentivize certain senior staff by establishing agreements for commissions to be paid for new sponsorships (advertising, marketing, and sales) and contracts executed. We understand that in October 2009, the Director of Food and Beverage for the Association negotiated an agreement

with a large bottling company and brought a draft agreement, signed by the sponsor, to the former General Manager for approval. This five-year agreement provided annual sponsorship fees to the LAMCC (\$70,000 in year one rising to \$100,000 in year five) with requirements that the Association purchase a minimum amount of bottled beverages each year. It also added rebates for amounts of products purchased over certain thresholds.

We are told that this contract sat with the former General Manager for several months with no explanation provided to the Director of Food and Beverage as to why it was not executed. Subsequently, records reveal that a second contract between the bottling company and the Association was executed—signed in January of 2010 by the LAMCC Assistant General Manager-Events who lacked the authority to contractually represent the Association. More importantly, this contract diverted the payment from the Association to the private company affiliated with the Assistant General Manager-Events. In fact, we are told that initially the bottling company submitted the first payment under the contract directly to the Association, but the Assistant General Manager-Events requested that the check be reissued to his private company. We cannot determine whether this situation is a unique case, but it does demonstrate the vague and loosely controlled management structure. In particular, key business partners, such as the bottling company, were confused as to the authority of individuals representing the LAMCC. In addition, this instance demonstrates the lack of defined protocols and oversight that should be in place so that individuals cannot circumvent the processes for personal gain.

Recommendations

29. The LAMCC should assure that all leases, sponsorships, signage and other such agreements should be catalogued and traced in records and “tickler” notes set up so that all events are monitored to ensure payment.
30. The LAMCC should formally establish and identify the individuals designated with the authority to negotiate and contractually bind the agency.

FINDING 10. CONTROLS WERE INADEQUATE TO ASSURE THAT OUTSTANDING RECEIVABLES FROM EVENTS WERE COLLECTED ON A TIMELY BASIS.

Collection of revenues is an essential part of the successful functioning of an entertainment venue such as the LAMCC. Thus, processes and procedures to identify and collect amounts generated for rents, fees, and royalties as well as recovering costs and expenses are critical to maintain fiscal health of the organization. The informal protocols for revenue collection and oversight vary depending upon the client and it appears that in the past, the LAMCC’s processes were weak and inconsistent and allowed for long-outstanding and sometimes inaccurate accounts.

For example, USC provides the LAMCC final accounting information related to ticket and merchandise sales. It is unclear whether the former administration reviewed and audited these amounts or monitored the payments to ensure timely receipt of the LAMCC’s rent, television revenue, merchandise royalties, and expense recoveries. The final payment for the 2010 football season was not received until June 2011. Upon subsequent review of the accounting for the 2010 season, the Interim Finance Director found that not only was the payment for that season late, the USC calculation was over \$138,000 short because it did not include all the television

revenues. Further, we requested LAMCC records related to the 2008 and 2009 seasons and the Interim Director told us that these were incomplete. To mitigate these issues for the 2011 football season, the Interim General Manager issued a letter of agreement with the USC program to set forth parameters for reporting and schedule for payments. The LAMCC requested the \$138,086 past due payment from USC and anticipates the final reconciled payment for the 2011 football season before the end of the fiscal year.

In addition to USC's payments for the use of the Coliseum, the LAMCC's primary receivables are associated with events and use of the various venues within the Coliseum and Sports Arena grounds. At the conclusion of an event, the LAMCC staff prepared a "settlement statement" that included information as to the type of event, promoter/sponsor, revenues generated from ticket sales, attendance, deposits received, and billed external costs as well as estimated internal "building" costs related to the event to be recovered by the LAMCC. After the event or facility use is finished, the LAMCC completes the settlement statement to determine if funds deposited by the promoter are sufficient to cover all the costs and whether there is an outstanding balance either due from the promoter or if a refund should be paid by the LAMCC. Any balances owed by the promoter/sponsor become accounts receivable for the LAMCC.

When we started the audit in November 2011, the Interim Director of Finance informed us that he was working through the list of longstanding accounts receivable to assess the collectability of these amounts and was actively pursuing collection. Specifically, on December 1, 2011, over \$1 million was included in the accounts receivable listing—with all of these amounts were aged "over 60 days" with some over two years old. The items included on this listing were not complete and among other items, did not include the aforementioned over \$138,000 due from the USC for 2010 football season or the outstanding lease payments due from the State for Parking Lot 3. Since then, the majority of these outstanding amounts have either been collected or are still actively being pursued. As of the beginning of March 2012, approximately \$140,500 of the outstanding accounts receivable known at December 1, 2011 remained outstanding.

We also reviewed a sample of 27 settlement statements for a wide range of events held during 2010. Of this sample, the LAMCC showed receivables on 15 of the settlement statements ranging from approximately \$60 to \$14,360. Our review of an "Accounts Receivable Aged Invoice Report" dated December 1, 2011, revealed that none of the 15 receivables in our sample were still outstanding as of that date.

The LAMCC's General Ledger system does not provide reporting that directly links all receipts and expenses related to each specific event in order to easily reconcile to an underlying settlement statement. Consequently, a line-by-line accounting to our sample of settlement statements was not feasible. In fact, this accounting system deficiency we observed also impacts the LAMCC's ability to identify the costs it incurs internally on various events as the absence of unique event codes makes isolating such expenses extremely difficult.

Rather than relying on manual settlement statements or contemporaneous notes, the LAMCC should ensure that every event initiated is assigned a unique event number in the accounting system so that all financial-related activities can be posted and tracked, regardless of whether the event takes place or is ultimately cancelled or delayed. This will help ensure that any amounts outstanding are appropriately monitored and collected on a timely basis.

Recommendations

31. The LAMCC should continue its efforts to actively age, monitor, and collect on balances due from events.
32. The LAMCC should create an event-specific coding in its accounting system to assure that all revenue and expenses related to each event are appropriately tracked.
33. The LAMCC also should work with USC to ensure it receives accurate and timely reports as well as timely payments by formalizing the reporting procedures and monitoring and overseeing the receipt of information. Further, the LAMCC should establish a formal process to “audit” information provided by USC to verify and validate its calculations of the LAMCC’s share of the events.

Section 4. Compensation and Payroll

Although a comprehensive package of salaries and benefits are provided to LAMCC executives and staff, the LAMCC has not established compensation policies and information relative to duty statements, position descriptions, required knowledge, skills and abilities, organizational structure, or reporting structure for any of its employees other than the former General Manager's employment contract. Further, there is no formal process, criteria, or methodology to periodically evaluate staff, assess and set compensation, or establish professional development plans.

For the period of our review, the following salary and benefits were provided to various LAMCC employees:

- Salaries and hourly wages
- Bonuses and Commissions
- Medical insurance
- CalPERS retirement
- Automobile allowances
- Automobile insurance and fuel payments
- Medical insurance waiver payments
- Excess medical expense payments

According to the Interim General Manager, the LAMCC had a full-time human resources manager up until a few years ago. When that individual left, the former General Manager opted to keep the position vacant and, instead, assigned related duties to the Accounting Manager. It is unclear how the former General Manager determined salary, raises, performance, or bonuses and whether there was any oversight of payroll and compensation practices.

FINDING 11. POLICIES, PROCEDURES, AND CONTROLS OVER PERSONNEL AND COMPENSATION WERE WEAK AND LACKED CONSISTENCY.

Salaries and Payroll

Under a LAMCC-approved employment contract, the former General Manager was responsible for overseeing all operations and hiring employees to carry out the day-to-day activities of the Coliseum and Sports Arena—although there were no established policies and procedures to guide how staff compensation is set or how positions are described and established, required knowledge and skills are determined, and staff performance is assessed. While the salaries, wages and benefits of these newly hired employees were processed through the City of Los Angeles' payroll system administered by the City Controller, because the LAMCC's Association also issued payroll checks for employee salaries and wages, the result was a deterioration of controls, additional confusion, and creation of inconsistency in payroll practices.

Specifically, the Los Angeles Memorial Coliseum Association (Association) is a nonprofit benefit corporation formed under the IRS Code §501(c) 3 and California Corporations Code §5110 et seq., with a primary purpose to provide financial support to the Coliseum and Sport Arena²⁰. Under its Articles of Incorporation, the Association is authorized to pay reasonable

²⁰ The Association must meet at least annually and is governed by a three member board comprised of Commission members *ex officio*, or their designees.

compensation for services that it receives. A September 1998 amendment to the agreement between the LAMCC and the Association sets forth that the Association will provide food and beverage services for all Coliseum and Sports Arena events and also afforded the LAMCC's General Manager the authority to appoint and employ all staff necessary to fulfill its terms and conditions. Generally, we found that the LAMCC's full-time employees were paid using the City Controller's payroll system, while casual, part-time event and food and beverage employees were paid using an outside payroll company (ADP Payroll Services).

The LAMCC, through the Association, chose to process two separate payrolls each pay period. One of the payrolls was under the heading of "Food and Beverage" and the other as "Events", yet both were under the same Association EIN number (IRS Employer Identification Number). At year end, ADP services prepared separate W-2s for employees paid under each of the two areas. Several employees received two W-2s as a result. The 1998 Association agreement clearly outlines the intent for the Association to provide food and beverage services; however, it is not clear why the Association's EIN was used to pay the Event employees or why the two separate processes were established. The Interim Director of Finance informed us that effective January 1, 2012, he instructed ADP to report event staff under the LAMCC's EIN and not the Association's EIN. He added that he did not know whether the past use of the Association's EIN for both food and beverage and event staff was an oversight or if there was some other motivation.

Additionally, we found other situations of inconsistent, illogical, and haphazard practices over payroll. During our review of Calendar Year 2010 payroll issued using the City Controller's system, the Association's two payroll systems, and LAMCC's issuance of checks from its operating account we noted the following:

- Regular salary payments and many bonuses were processed through the City Controller's payroll system for the LAMCC's fulltime employees – other taxable compensation, such as commissions, auto allowances or additional medical coverage were not.
- Other than the bonuses processed through the City Controller's Payroll System, we found that the LAMCC also issued some bonus and commission checks in two other ways. They either wrote a manual check directly to the employee directly from its operating account or they processed the payment through the Association's payroll provider (ADP payroll services)
- Two fulltime employees whom we were told provided the LAMCC's overall Information Technology support were paid from the Association's two payrolls, but were transferred to the City Controller payroll system in early 2011.
- In order to receive medical insurance under union-sponsored plans, employees paid by the Association who worked more than 20 hours in a week were processed under the Food and Beverage ADP payroll; additional hours they worked over the 20 hour threshold were charged to the Event ADP payroll.
- An LAMCC-wide staff roster of employees that includes titles, hire dates, years of service, and base salaries does not distinguish between those employees being paid through the City Controller's payroll system and those paid via the Association's ADP system.

We found internal control weaknesses in some payroll activity and bonuses that LAMCC processed. It is important to distinguish the difference between the two payroll systems – ADP versus the City Controller’s system. Processing through the City Controller’s payroll system is different than using the ADP systems because all LAMCC employees who are paid through the City Controller’s payroll system are salaried, rather than hourly employees. Under this system, the only adjustments typically made during a particular pay period would be accounting for sick or vacation leave taken. We reviewed a sample of bi-weekly pay periods in 2010 which the LAMCC used the City Controller’s payroll system and interviewed the payroll clerk. We found the following regarding the use of the City Controller’s payroll system.

- Employees submit attendance time sheets to the payroll clerk every two weeks. These are “attendance activity” reports, which do not detail specifics of work conducted – rather, they identify each day as “present” or “absent” for various reasons (including vacation, illness, holiday, or jury duty).
- The attendance sheet is signed by both the employee and the supervisor. The payroll staff informed us that the payroll is not processed without both signatures. All attendance sheets in our sample were signed by both parties.
- While our pay period sample had instances in which no adjustments were made, there was appropriate documentation in those instances where leave hours were taken by various staff.

In comparison, the two payrolls processed through ADP were sometimes inaccurate and missing important controls related to recording and authorizing time worked, implementing reasonable checks and balances on number of hours worked, and ensuring salary figures, rates, and calculations were accurate and appropriate. Specifically, our testing of 2010 wages paid through these processes found the following problems with payroll processing under the non-City Controller payrolls.

- Time cards that lacked both employee and/or supervisor signatures;
- Marginal hand written notes and recalculations used to adjust hours to be paid;
- Reliance on copies of timecards or time reports;
- Miscalculated hourly rates and payments between timecards and actual payrolls resulting in both under and over payments;
- Incorrect salary rates applied against hours worked;
- Overtime miscalculations, including paying overtime when it was not warranted;
- Paying an employee for working 25 hours in one day; and
- Moving hours between “food and beverage” and “event” payrolls for purposes of qualifying for union medical plan coverage.

In July 2011, the Interim General Manager engaged a firm to conduct a compensation study of all LAMCC positions for use in future salary decision making. Further, on February 29, 2012, the Interim Director of Finance issued new policies related to LAMCC payrolls that outline several improvements to the timekeeping process.

Bonuses and Commissions

While bonuses and commissions are part of compensation packages for some LAMCC staff, there are no guiding policies or practices to identify and track bonuses and commissions paid, ensure their consistency and accuracy, and properly reflect tax implications and reporting.

In July 2001, the LAMCC negotiated an employment agreement with its former General Manager that included provisions for incentive bonuses for the former General Manager and his designees. Although the calculation of the bonus is complicated and identifies selected revenues and expenditures that are to be excluded, it is essentially based on an amount equal to 30 percent of the amount by which the LAMCC's "net income" exceeds \$250,000 in a fiscal year (raised incrementally to \$295,000 in later years).

The bonus allocation for the former General Manager was limited to assure that in no event would his total compensation (Base salary of \$150,000 plus incentive bonus) exceed \$425,000 in the first year increasing to \$445,000 in later years. In addition, the maximum incentive bonus that could be paid to all designees rose from \$150,000 to \$170,000 in later years. The agreement also provided that if the excess cap were reached in any given year, the amount of bonus not received would be rolled over to the next year for potential payment. As mentioned earlier in the report, when the bonus cap was reached in prior years, an amount equivalent to the amount of unpaid bonuses was reserved on the Coliseum's financial statements for future years – suggesting that maximum bonus cap was reached in the past.

Our review of bonuses paid under the former General Manager's compensation agreement reveals that for each of the four calendar years included in our review, the former General Manager was paid the maximum allowable bonus of \$125,000 per year. In none of these years did his salary and bonuses exceed the amounts stipulated in his compensation agreement.

The bonuses paid from the second pool available for distribution to other designated LAMCC employees varied each year ranging from \$250 to \$23,000 in 2007, totaling \$158,750 with the average of \$5,300. In 2008 bonuses equaled \$151,750 ranging from \$500 to \$25,000 with an average for the 25 employees being about \$6,000. In 2009, the total amount of employee bonuses paid was again slightly lower at \$150,750 with amounts ranging between \$500 to \$23,500—averaging almost \$5,600. Finally, in 2010, the last year these bonuses were paid, the total was almost half of the prior years, \$87,500, with amounts ranging from \$250 to \$16,500 and averaging \$3,500. These employee bonuses were processed through the City Controller's Payroll System.

In addition to the bonuses paid through the City Controller's Payroll System, we found more than \$75,000 in other bonuses that were processed through the LAMCC's regular operating account during the 2008-2010 time period. Moreover, we found that the Association issued bonuses to individuals working for the not-for-profit corporation. For the three-year period from 2007 to 2009, these bonuses averaged in total \$37,000 on an annual basis, with payments ranging from \$500 to \$23,000. We found no evidence that these bonuses were based on any given formula, but all were approved by the former General Manager.

Finally, we found that the LAMCC staff could not identify commission payments and we were unable to isolate such commissions from other compensation paid. Under provisions of agreements struck with particular individuals—specifically the former Assistant General Manager-Events and the contracted Director of Food and Beverage—commissions were earned

if new sponsorships, filming events, or certain other new business was obtained. Accounting staff explained that any commissions paid to employees were included in the ADP payroll. However, we did identify one particular instance in which the Association contracted with a local horse racing association for monthly consulting services. Under this agreement, the Association received \$12,500 per month and the contracted employee would provide the services on the Association's behalf and earned \$6,250 per month "stipend" for the services he provided as "extra time". This agreement lasted for seven months until the Interim General Manager renegotiated the agreement with the independent contractor, reducing the commission to \$3,500 per month. The contract with the racing association expired on December 31, 2011 and was not renewed.

We also noted other payments or agreements the LAMCC characterized as "commissions." These included, for example, a "one-time \$5,000 commission" paid to the former CFO in 2009 for reducing the Coliseum and Sports Arena's electricity demand charges, agreements benefitting the former events manager and former development director (an independent consultant) paying commissions of 10 percent on commercial filming at the LAMCC.

Bonuses and commissions are taxable as ordinary income and, for those LAMCC employees who are members of CalPERS, bonuses are classified as additional compensation for purposes of calculating eventual retirement benefits. The LAMCC's agreement with CalPERS calls for employees to contribute 8 percent of their compensation to the retirement system which is matched by the LAMCC²¹.

We were told by the Interim General Manager and Interim Director of Finance that the LAMCC ultimately paid the CalPERS' employer and employee contributions regardless of whether the bonus was paid via the City Controller, ADP or manual check, and sought reimbursement from the employees for their share. However, on the approximately \$75,000 in bonus or commission payments made with manual checks from the LAMCC's operating account for the period 2008 through 2010, we found no evidence that income taxes were ever withheld. Moreover, our review of the LAMCC's IRS Form 1099s prepared for the three year period ending 2008, 2009 and 2010, found that none of these bonuses had been reported to the IRS.

In 2011, the LAMCC ceased the practice of issuing bonuses and commissions to all employees.

Automobile Allowances and Expenses

The former General Manager's employment contract with the LAMCC calls for the use of an automobile for the performance of duties, the lease payments for which shall not exceed \$700 per month. Further, it states that the LAMCC shall be responsible for the cost of insurance and fuel for such vehicle. In fact, the LAMCC purchased a vehicle for the former General Manager's use rather than lease a vehicle on his behalf. This vehicle was sold by the LAMCC after the former General Manager left his position with the entity.

While no such employment contracts were executed for other LAMCC and Association staff²², we found that six employees received auto allowances of between \$400 to \$600 per month.

²¹ The Commission's CalPERS retirement benefit is based on a 2.5% at 55 years of age formula applied against a 36 month final average compensation period.

²² The Association's contracted Director of Food and Beverages had a contract but it did not include automobile allowance provisions.

Three of these employees were reimbursed for automobile insurance and fuel purchases as well. For example, over the three-year period 2008 through 2010, the LAMCC paid a total of \$20,500 in car payments (approximately \$600 per month) to the former CFO. The former Assistant General Manager –Events received a car allowance of \$600 per month, totaling \$22,200 over this period. The former CFO also was paid for the automobile insurance and fuel for his vehicle.

Yet, importantly, none of the LAMCC-paid auto allowances or reimbursements were reported on the employee's City Controller issued W-2s in accordance with IRS regulations relating to fringe benefits. This is because the LAMCC did not report them to the City Controller as required. Personal use of an employer provided automobile is taxable, and any business use can be deducted by the employee on their tax returns.

Conversely, the three employees who received their automobile allowances from the Association were provided that payment through their regular payroll processed through the ADP system, which included these amounts as compensation on the ADP-issued W-2s.

On January 11, 2012, the Commissioners terminated automobile allowances and medical insurance waivers (discussed below), while endorsing increased base salaries for the nine staff members still employed by the LAMCC to minimize some of the impact of these reductions.

Medical Payment Waivers and Reimbursements

Medical insurance is provided to LAMCC employees through their CalPERS membership as part of their compensation. Association employees may qualify for union-sponsored medical plans if they work at least 20 hours per week; however, we did not review these plans. Nine LAMCC employees in CalPERS did not participate in the health insurance programs due to coverage under a spouse or partner's plan. The former General Manager allowed these employees to receive a waiver allowance for opting out of the LAMCC-paid plan that is currently \$225 per month. Such an incentive is not uncommon in state and local governments we have reviewed, especially if the waiver payment is substantially lower than the cost of coverage; however, the LAMCC's "in lieu" amount is more generous than many we have seen.

We found that two LAMCC employees, the former CFO and the former Assistant General Manager – Events, were provided medical service reimbursements beyond the regular coverage or waiver program offered to other employees.

Specifically, we found the following:

- The former CFO chose the health care plan waiver program due to being covered under his wife's insurance program. However, in August 2001, he requested that he be allowed a special medical reimbursement up to \$6,000 per year due to his mounting medical bills that were beyond his current policy's limits. This request was to be in addition to his medical waiver payment which would continue. The former General Manager approved his request and payment records show that he received between \$2,850 and \$5,920 per year in medical reimbursements in excess of his plan's coverage during the four-year period of our review through 2011. While he did not exceed his \$6,000 approved limit in any given year, this type of agreement was not offered to all employees.
- Although the former Assistant General Manager – Events was covered by the LAMCC's health insurance plan, he also requested and received a total of \$4,096

over a five and one-half month period from October 2009 to March 2010 for massages and other medical treatments. We did not find any agreement between this employee and the former General Manager regarding these payments; however, the requests were approved prior to payment.

While the LAMCC's JPA agreement cites that it is to operate following the "mode, manner, and procedures of the City of Los Angeles", these practices are inconsistent with the JPA agreement because similar excess medical reimbursements the LAMCC allowed these two employees are not provided to the employees of the City of Los Angeles.

Recommendations

34. LAMCC should ensure all employees follow the new policies and procedures set forth for all payroll and timekeeping.
35. LAMCC should ensure that any commissions deemed appropriate require formal written agreements and that any commission payments are formally approved and documented.
36. LAMCC should clearly communicate to all staff, including casual employees, that timesheets must be originals, and signed by both the employee and the employee's supervisor.
37. LAMCC accounting managers should establish an oversight process to ensure that payroll calculations are reviewed by supervisors for accuracy and reasonability.
38. LAMCC should ensure that no matter which payroll system is employed, any bonuses, commissions, or other types of compensation provided to employees be reported either through the City Controller's payroll system or be reported to the Internal Revenue Service by issuing form 1099s.
39. LAMCC should assure that all compensation and benefits provided to LAMCC employees are clearly delineated in an Employee Manual and special provisions or compensation should be approved by the Commission Board.

Section 5. Procurement and Contracts

Internal controls are intended to ensure that assets are protected, processes are uniformly followed, and that funds spent by the entity are done so as to benefit and support its operations. Policies, procedures, and practices related to expending LAMCC funds should ensure that LAMCC funds are used only for its benefit and only for equipment, goods, and services deemed necessary, appropriate, and approved by designated LAMCC managers.

FINDING 12. NO FORMAL PROCESSES WERE ESTABLISHED FOR PURCHASING, AND FORMER EXECUTIVES ALLOWED UNCONTROLLED USE OF PERSONAL CREDIT CARDS FOR LAMCC BUSINESS.

Until 2011, the LAMCC operated without formal purchasing processes and protocols. At that time, the Interim General Manager and Interim Director of Finance instituted formal processes and began establishing formal written policies. We understand that under the former management, little direction or policy was in place guiding the processes for making large and small purchases. As such, we found no documentation related to purchasing limits, delegation of authority, or established processes for obtaining approval. Instead, it appears that employees at various levels were allowed to procure a wide range of equipment, goods, and services as they deemed necessary without any formal request or approval process.

Our review of vendor files shows some instances where estimates were obtained and/or purchase orders were prepared and approved before-the-fact but this practice was often typically circumvented or ignored. Under the former CFO, invoices were approved and payments were made on purchase orders that were frequently prepared when the invoice arrived or were not prepared at all. Therefore, these practices ignored the tenets of strong purchasing controls requiring a “three-point match” between purchase requisitions and orders, receiving slips, and invoices prior to payment to ensure the good or service was needed and approved in advance by an appropriate party.

Further, we noted certain employees independently purchased and/or charged the LAMCC hundreds of dollars through reimbursement claims for services such as telephone maintenance, general building repairs, building improvements, perimeter fence demolition, and construction in process; equipment, materials, and computers; office and computer supplies; and “other assets.” These types of expenses should have been formally procured through some type of purchase order issued to the vendor, rather than informally purchased by the employee and then reimbursed after the fact.

Of greater concern, was the frequent practice of using personal credit cards to procure goods, supplies, services, and equipment. Our review finds that the former General Manager allowed seemingly unlimited use of personal credit cards for LAMCC business. The financial records show that many LAMCC executives and managers used their own personal credit cards or the personal credit card of their superior to purchase thousands of dollars of goods and services on behalf of the LAMCC. For example, rather than use purchase orders or a contract, the former CFO used his personnel credit card to rent equipment and pay for materials and supplies related to construction in progress—totaling more than \$67,000 over the period of our review, in addition to the \$227,500 for audio system equipment and upgrades, as described below. Our

review of the reimbursements for these purchases reveals that support for these expenditures was often limited to credit card statements without the underlying receipts.

As such, the Commission had little evidence that would suggest any level of control over purchases made using these credit cards with the exception of an approval signature on the employee's reimbursement claim document. Although some sales receipts were included along with a copy of a credit card statement in the employee's reimbursement request packet, there was little evidence of any pre-approval of a purchase, documentation of the reason for the purchase, or how the good or equipment would be used. In fact, records could not demonstrate that the good or equipment was ever received or used for LAMCC purposes. Of significance in this matter is that personal credit cards were used for "big ticket items" and significant services such as purchases of audio system equipment and related cabinetry and supplies; concrete and pumping trucks; vehicles, carts, and trailers; software and other IT hardware, equipment, and supplies; cameras, telephones, and radios; and a variety of charges related to facility upgrades and construction as highlighted below:

- Over \$227,500 for audio system equipment;
- \$56,070 to secure a block of rooms at a local hotel for a South American soccer stars match that never transpired;
- \$5,785 for an enclosed trailer from a vendor in Nevada;
- \$13,362 of supplies for a Coliseum fence line project;
- \$19,800 in Monster tickets from the USC ticket office;
- \$9,300 (split between two employees' credit cards) for a trailer from a vendor in Nevada;
- \$5,110 for TVs and screens; and
- \$6,100 for ATM machines.

The practice of using personal credit cards has been severely limited by the Interim General Manager.

Recommendation

40. The LAMCC should ensure that all purchases follow the newly established policies and procedures to ensure that purchases are pre-approved, necessary, and at the best price, and that any credit card use is strictly monitored.

FINDING 13. THE LAMCC DID NOT ESTABLISH FORMAL POLICIES AND PROCEDURES OVER PROCUREMENT AND CONTRACTING, AND DID NOT PROTECT ITS BEST INTERESTS BY USING COMPETITIVE BIDDING AND FORMAL AGREEMENTS THAT WOULD ENSURE CONTRACTORS WERE MOST QUALIFIED AND SKILLED, INSURED, AND PERFORMED AT THE DESIRED LEVEL.

It appears that until late 2011, the LAMCC lacked formal or informal policies, procedures, or protocols related to contracting for goods and services and that practices for obtaining bids were inconsistent and random. We did note some instances where the LAMCC issued a formal bid

solicitation to obtain proposals for specific services, such as public relations or elevator repairs, that were vetted through the Commissioners, although our review of the Commission Board meeting minutes suggests these instances were few. Because the LAMCC did not appear to maintain formal lists of contracts or files related to bid solicitations, we relied on observations and discussions with staff to identify circumstances when significant projects were undertaken and bidding occurred. Government entities typically have established rules, policies, and procedures that guide circumstances when competitive bidding is required—usually the type of project, dollar value, and complexity are elements included in such criteria. However, we did not identify any formal or informal set of criteria for bidding or pricing.

Rather, we found the more common practice was to procure goods and services through unwritten sole source contracts, often using the same vendors. We noted that vendor files included few formal, written contracts or agreements with vendors for specific projects—regardless of the size and cost, with the more common practice appearing to be informal approval and payment by invoice. Additionally, arrangements with vendors providing on-going services or goods were also not memorialized in written form and were therefore missing critical factors that designated rates, performance expectations, deliverables, and term of service. For example, Services for All Events, a company providing janitorial services, was paid a total of \$4.8 million from January 2008 through June 15, 2011 without a formal or written agreement; the Interim General Manager believes that this relationship existed for 12 years without any formal contract. Further, we found that this firm was also paid for services classified as “contracted security.”

Also, it appears the LAMCC often used the same vendors or specific individuals year after year for a variety of tasks, goods, and services. For example, one individual during the years of 2008 and 2009 was paid almost \$18,000 for Coliseum fence repairs, facility upgrades, IT expenses, and other equipment. During that same period, another individual was paid almost \$21,000 for IT services without a contract or agreement, and during 2010 a different individual was paid almost \$8,000 for such services. In one more notable case, we found a single individual provided a wide range of general maintenance, services, installation and repairs of IT systems, video and sound equipment, and the purchase of equipment and machinery. Over a 4-year period, this person was paid more than \$391,757. We did not find any contract related to this individual but we noted that the LAMCC did issue an IRS Form 1099 for a portion of this amount.

Without formal agreements with these vendors, the LAMCC is at risk. There is no assurance that any of these vendors hold appropriate insurance, no instrument exists to ensure the complete, appropriate and timely work; and the LAMCC has no warranty or recourse if the services are substandard or incomplete, or that the vendor is licensed if appropriate.

Two particular cases were identified that illustrate the benefit of arms-length, competitive bidding. In 2009, the LAMCC decided to undertake a project to increase the yard level space available for Coliseum concessions by moving and replacing approximately 3,000 linear feet of perimeter fencing. This perimeter fence project was brought to the Commissioners in April 2009 at a budget of \$450,000. The Director of Facilities scoped out the work, established the criteria for materials and style, and invited four or five contractors on a job walk to obtain competitive bids for the project. He received four formal bids ranging from approximately \$450,000 to \$600,000. These bids were assessed and suitable contractors were forwarded to the former General Manager for a decision. We are told that concurrent to this bidding process the former

General Manager and another LAMCC employee determined that the project could be completed “in house” and would save about \$100,000. Commission Board meeting minutes reported giving the General Manager authority to negotiate an amount not to exceed \$436,736 that could include “a combination of low bidder and in-house or in-house staff only.” It was decided that instead of awarding the contract to any of the bidders, the project would be undertaken in-house with LAMCC employees and some “independent contractors”—although none were those firms participating in the bidding process. Rather, former management chose contractors that it had frequently used in the past, including the individual previously noted in this discussion whom was paid over \$154,000 as part of this project.

This in-house project was not overseen by the Director of Facilities, but rather the Director of Information Technology and did not follow the scope and specifications set forth for the bidders. The resulting project was a fence style that used welded pickets attached to cross bars rather than pickets that were passed through the cross bars (for greater strength). The original bidders had proposed on this stronger construction method; however, the “in-house” approach required less labor and reportedly resulted in an inferior end product. Moreover, we are told that 10 to 12 tasks still remain to be completed on the entire project (including caps on the pickets to prevent rain from collecting within the iron shafts), parts of the fence are rusting, some welds have failed, and remedial work has had to occur. The project was recently completed for a total cost of \$463,000.

Conversely, the LAMCC indirectly solicited bids for a \$1.9 million elevator project in 2007. Specifically, on October 3, 2007, the former General Manager recommended to the Commissioners that Turner Construction be “proposed to take the lead as a construction management consultant” related to Coliseum capital projects. He further described that “Turner Construction has proposed to pay for the architectural and structural engineering fees and develop a master plan for us, through February 2008, with the expectation that if the LAMCC approves the projects...they would act as construction managers under normal fees and conditions. After that time, Turner would bid out the work under normal policies and practices.” While it does not appear that any competition was sought to assess other vendors or bids, the Commissioners approved this agreement. Acting as the Construction Manager, Turner led the new elevator project and bid out the various aspects of this significant project.

As mentioned previously, the LAMCC is bound in its JPA agreement to operate in the “mode, manner and procedures of the City of Los Angeles”. Clearly, the LAMCC did not deploy the City’s very vigorous set of contracting and procurement policies in its procurement and contracting activities.

Some Contractors appeared to function as LAMCC employees.

We noted that some contractors appeared to function more as LAMCC employees than contractors. Specifically, we identified two individuals who were long-term contractors that could be viewed as LAMCC or Association employees. Unlike some of the examples previously described, both of these individuals held formal contracts with the LAMCC or Association. One individual contracted with the LAMCC in 1995 “for the performance of professional and expert services of a temporary nature, for which the Consultant is uniquely qualified.” The Consultant was to work for a minimum of 80 hours per month and be compensated at \$10,000 per month on a variety of projects to be determined by the LAMCC or the President of the LAMCC and report

directly to the Commissioners. Records do not show any change or update to this original agreement over the more than 15 years of its duration. Due to his “employee” nature, California Public Employees Retirement System (CalPERS) opined that, for pension purposes, this consultant was a LAMCC employee and eligible to participate in CalPERS—thus creating an additional cost to the LAMCC for the employer’s pension contribution. This contractor held this position with the LAMCC until September 2011 when the agreement was terminated.

The second independent contractor of note was under contract with the Association that commenced December 1, 2008 with a three year term. This individual was designated as the General Manager of Food Services and his contract provided no specific duties, responsibilities, or tasks. It simply set forth the compensation arrangement—\$10,000 per month to be increased yearly “by an agreed upon amount.” Further, this level of compensation was “in lieu of benefits.” Also, the agreement provided for a performance bonus (see “bonus” discussion in other sections of this document) based upon the net revenue of the food and beverage services and allowed for “commissions of 10 percent will be paid on any additional or incremental marketing funds or new business generated...” (see discussion on salaries and compensation). The contract was renewed for one month in December 2011 at the end of its term, and as of January 1, 2012, the individual was formally hired as a LAMCC employee.

Recommendations

41. For projects deemed as facilities upgrades, remodeling, or related to infrastructure or capital improvements, the LAMCC should ensure that projects are fully developed and designed, include specific elements and requirements of the project, are vetted, and have reliable and reasonable cost estimates.
42. LAMCC should ensure that its policies and procedures for contracting are followed to ensure the best price is received and the best quality is realized by allowing full public participation in bidding practices.
43. LAMCC should require that all contractors conducting work on its behalf demonstrate, prior to performing services, that they are appropriately insured and licensed.
44. LAMCC should develop personnel processes to define and delineate independent contractors to ensure they are truly contractors and not in essence employees that could place the LAMCC out of compliance with federal tax laws as well as put it at risk to pay pension benefits for these individuals.

FINDING 14. ACCOUNTS PAYABLE OPERATED WITH INFORMAL CONTROLS AND ALLOWED “ON DEMAND” PAYMENTS, INADEQUATE SEPARATION OF DUTIES, AND INCOMPLETE DOCUMENTATION

Our review of vendor files reveals that nearly all accounts payable expenditures were accompanied by a check request sheet that included a form of approval such as a signature or initials. However, any procedural protocols in place were informal with the understanding among the accounting staff that they were to issue payments or cut checks as requested by the LAMCC managers regardless of the level of support. We noted several questionable practices such as:

- “On demand” payments;
- Preparing expenditure support documents after the fact;
- Accepting photocopied vendor invoices; and
- Reimbursing personal credit card expenditures without supporting documents.

Generally, our testing shows a few basic controls such as an approved check request, approval of the “department manager” on invoices, submitting checks for approval with documentation, and dual signatures on each check. However, the underlying documentation is minimal in many cases and files often lack adequate support for the payment such as original receipts and shipping documents, and clear approval authority. A common former practice allowed payments to vendors “on demand” where vendors submitted invoices or check requests to the accounting office in person and “manual” checks were immediately written for payment. This process does not allow for supervisory review of the payment to ensure the amount is authorized, accurate, and appropriate—all tenets of sound internal controls. In addition, many of these transactions frequently included little to no support for the expenditure related to a good or service with staff often preparing purchase orders after the fact.

We also found instances where photocopies of invoices were used as support, contrary to best practices. In fact, we noted one frequent service that was the same invoice copied over and over with just a note of the date change. Allowing photocopies can lead to duplicate, unauthorized, or inappropriate payments. Further, under the previous management, it appears only some procurements followed accepted practices of “pre-approval” that would entail preparing a purchase order or receiving an estimate and obtaining approval before the purchase—thus, monitoring the need and prudence of the procurement. The weaknesses in the LAMCC’s prior internal controls have allowed at least one duplicate payment in the sample of items we reviewed.

Additionally we noted inadequate separation of duties. While a small staff such as that at the Commission always presents a challenge in this regard, it appears that the traditional mitigating controls of a supervisory review may not have been in place. While check requests, purchase orders, invoices, or travel/personal payment requests included some initialing or other “approval” indication, there was little evidence of any true review and oversight. Further, we found that the LAMCC used many vendors on a frequent basis and paid these vendors for services, goods, and supplies without support of the specific duty to be performed, task to be undertaken, nature or use of the good, or delivery of the piece of equipment purchased—payments to these vendors reached into the thousands of dollars.

Overall, we noted that most expenditures reviewed lacked evidence that supported each of the three controls needed for a strong procurement system. Most of the expenditures for goods or services lacked evidence of delivery or receipt of the item, such as packing slips. Moreover, there was no system in place to assure that items purchased actually remained with the LAMCC and were properly accounted for in its records. Further, many of the procurements did not have both the purchase order and original evidence of the purchase or service rendered such as full invoice or receipt. Therefore, the procurement business processes lacked the essential steps for a “three-point match,” which includes a second-level authorization of purchase request, receipt of goods or services with independent verification of acceptance of the good, and invoice or sales slip with approval for payment.

Effective December 19, 2011, the Interim Director of Finance established a “Purchasing Policies and Procedures” manual with written guidelines prescribing the processes for buying goods and services and require pre-authorization of purchases; necessary separation of duties; appropriate steps, documents, and approvals to comprise three-point match controls; and actions for tracking, recording, and record-keeping related to goods and materials procured. On February 29, 2012, he issued policies and procedures related to payment processing requiring, in part, that all payments are processed through the accounts receivable business cycle, a “three-point match” process is employed, and that payments are made on a timely basis. All of these policies and procedures were established during the course of our review—we did note that the staff were embracing these changes; however, at this early juncture, we cannot yet assess the impact of these efforts on the control environment.

Recommendation

45. LAMCC should ensure that all staff understand and follow the newly established policies and procedures over procurement and payment processing so that the system that has been initiated works as intended.

Section 6. Fixed Assets and Resources

The LAMCC possesses a variety of assets and resources. When taken as a whole with the Association, it controls two major public facilities that provide large event venues—these facilities must not only be functional, but also in a condition to protect, safeguard, and afford access to the public who “own” such resources. Further, the LAMCC must fulfill its fiduciary responsibility of maximizing the revenues on the venues and maintaining the condition not only for safety purposes, but also in terms of historic preservation and attracting events for the public to enjoy. It must also make prudent business decisions and ensure the safeguarding of business assets such as four liquor licenses, information technology (IT) systems and equipment, digital and audio system, vehicles, and other major and minor equipment.

FINDING 15. DESPITE LONG TERM PLANS TO PRESERVE AND REFRESH LAMCC FACILITIES, PRACTICAL STRATEGIES AND PLANS HAVE NOT BEEN IMPLEMENTED NOR HAS RELATED FUNDING BEEN RESERVED

The LAMCC has established plans for the long-term preservation of the Coliseum and Sports Arena facilities and areas. A facility condition study in 2007 had characterized the facility’s condition as “poor”. It adopted the design theme of “Peristyle Modern” on October 7, 2009 which mandates the mission, principles, and overall architectural character that will guide future improvements. Further, the LAMCC recently completed a California Environment Quality Act study for a Final Environmental Impact Report relating to the Sports Arena redevelopment project. This project proposes to demolish and remove the existing Sports Arena and redevelop and reactivate the site. The report included two options: a multiple use space for civic and special event gathering; or a Major League Soccer Stadium with 22,000 seats. Further, while not directly under the LAMCC’s purview, the California Science Center developed an Exposition Park Master Plan in 2004 that may impact the Coliseum and Sports Arena facilities.

Despite the LAMCC’s established long-term plans for the Coliseum, it has done very little to implement these plans; moreover, it has not secured funding to make the improvements needed to fulfill its agreement with USC or to fulfill the vision the LAMCC has set forth. To date, its stated plan to generate needed funding through securing Naming Rights Sponsors has been unsuccessful. We have not seen other plans put forth to fund the estimated \$60 to \$100 million in needed upgrades and remodeling of the Coliseum alone; nor plans for funding the redevelopment of the Sports Arena area. As it stands, both facilities are in critical disrepair and are sorely underutilized which may result in the LAMCC not meeting its lease provisions with its primary tenant, USC.

Recommendation

46. Although the capital outlay plans for the Coliseum and the Sports Arena are highly dependent upon the lease agreement currently pending with USC, the Commission Board retains the fiduciary responsibility over the two historic properties and should develop contingent strategies to ensure the sound and useful condition of the properties.

FINDING 16. THE ASSOCIATION'S CRITICAL ASSETS—ITS LIQUOR LICENSES—HAVE NOT BEEN APPROPRIATELY MANAGED AND SAFEGUARDED TO PREVENT SANCTIONS AND POTENTIAL TERMINATION.

Currently, the Association holds alcoholic beverage licenses with California Department of Alcoholic Beverage Control: on-sale beer and wine, eating place; on-sale general, eating place; caterer permit; and event permit. There are strict laws and regulations governing the sale and consumption of liquor using these licenses, and enforcement of these mandates by the State is rigorous. The sale of alcoholic beverages, spirits, beer, and wine can generate significant profits to the Association and acquiring such licenses is not easily accomplished. However, the LAMCC has not always appropriately ensured that event promoters and users of the facilities follow the provisions related to where alcohol is served and consumed within the LAMCC boundaries as well as within Exposition Park, and it has not taken sufficient control to ensure minors are not served alcohol.

Specifically, at the events held at the Coliseum on June 25 and 26, 2010, the Association and LAMCC were charged by the Department of Alcoholic Beverage Control with 11 counts of violating licensing conditions. We understand that the former General Manager contracted with outside legal counsel to address these severe violations that could have resulted in the revocation of the licenses. The legal fees were significant, but the June 2011 “stipulation and waiver” issued by the State would have suspended two licenses for 15 days and set a 12-month stay period based upon no further violations. However, the LAMCC opted to pay two \$3,000 fines in lieu of the actual suspensions.

At the July 18, 2011 Commission Board meeting, the Interim General Manager stated that the “Association has implemented procedures for verification of identification/minimum age and have advised Coliseum Staff that they have an additional responsibility of continuous observation at or near all locations where alcoholic beverages are sold.”

Further, we understand there were instances where the LAMCC allowed its liquor licenses to be used by others for private fund-raising purposes. It appears over a number of years that the former General Manager allowed a not-for-profit entity to use the Association's liquor license at a charitable fundraising event held in the Rose Garden at Exposition Park. While we did not investigate specific issues in this matter, it appears that the “loan” of the liquor license would allow the charitable organization to purchase and/or sell liquor and allow alcoholic beverages to be consumed at the venue. Under California Alcoholic Beverage Control provisions liquor licenses are non-transferrable and may only be used by the entity holding the license and that the holder may not delegate or allow the temporary use of such as license.²³

Moreover, it is unclear as to the purpose behind the loan of liquor licenses, as California law allows non-profit organizations to apply for and attain one-day approval for a daily license of alcoholic beverages to be consumed on the premises. Such licenses may be obtained through the local law enforcement office with such jurisdiction. Under the law, however, a license would be needed to purchase beverages from a wholesaler or distributor. In allowing the “loan” of the license, the former General Manager put at risk these important assets—the liquor licenses—which could result in sanctions or penalties or loss of the licenses. When this matter came to the attention of the Interim General Manager, the practice was discontinued.

²³ California Business and Professions Code §23300

Recommendation

47. Although the liquor licenses are the property of the Association, the LAMCC management must ensure that employees working at all events held on LAMCC properties are fully aware and comply with the laws related to alcohol consumption on the premises.
48. The Association and the LAMCC must ensure that the Association's liquor licenses are only used in to support Association-controlled events.

FINDING 17. CONTROLS OVER PROPERTY, FIXTURES AND EQUIPMENT WERE WEAK AND NO PHYSICAL INVENTORY WAS MAINTAINED OVER THESE ASSETS.

We inquired of the processes and procedures in place at the LAMCC in terms of its fixed assets. The Interim Director of Finance conveyed that the extent of the asset record-keeping was the posting of the acquisition at the time of purchase to the accounting records, and a depreciation schedule at a non-detailed level. As a result, the LAMCC did have a general ledger-based record of assets purchased in categories that were used for financial statement purposes. Audited financial statements as of June 30, 2010 (statements for the 2010-2011 fiscal year are currently under audit by a new external Certified Public Accounting firm), reflect “capital assets” of \$20.2 million and cite depreciation practices using straight-line basis beginning in the year of acquisition over the asset's useful life. However, we are told that the current auditors identified real estate holdings that remained on the books that had been sold in previous years and had never been removed. These assets will be properly removed from the “books” and the reduction in assets reflected in the Fiscal Year 2010-2011 financial statements.

The LAMCC holds fixed assets that range from very large capital assets and land to smaller, more pilferable items, such as information technology and office equipment. As assets were acquired, the LAMCC did not have a written capitalization policy or a process to tag and inventory these items. For example, up until this year, flowers planted on the LAMCC grounds were capitalized on the financial records and depreciated over 5 years—these flowers were removed and replaced at least annually. The items should have been expensed as they do not qualify for a “useful life” of 5 years. This demonstrates the lack of structure, policy, and logic related to managing assets.

Further, in the past, the LAMCC could not be assured that all fixed assets purchased were actually delivered to the LAMCC because of the lack of formality and control over purchases. Moreover, assets currently on site lack the requisite cost and purchase date documents needed to properly “book” or record these items appropriately in the accounting records. In addition, we are told that to any staff member's recollection, a physical inventory has not been conducted of fixed assets. As a result, the Interim Director of Finance reports that there has not been a reliable record of assets that should be on site, those that were disposed, or those that may be missing.

Sound internal controls and best practices require that procedures are in place to:

- Ensure assets are properly identified and recorded;
- Assets are effectively utilized;
- Assets are safeguarded against loss or misuse.

Typical protocols set parameters for inventorying, capitalizing, and expensing items based upon the value and type of asset acquired. Further, items deemed to be inventoried should be assigned an inventory number and tagged with that identifier to facilitate tracking the asset and maintaining an accurate inventory. As items are removed from service, tags should be removed and used as part of the process to retire the item from the accounting records and inventory listing—therefore, maintaining an up-to-date inventory listing. Further, an inventory count should be conducted on a periodic basis.²⁴

Over the past few months, the LAMCC staff have been actively engaged in identifying and preparing a listing of capital assets. Further, the Interim Director of Finance is in the process of drafting policies and procedures to address definitions of capital assets, requirements for listing such purchases, processes for reporting losses, and guidelines for disposals and retirements. On February 29, 2012, the Interim Director of Finance issued policies related to Capital Assets and Asset listings. As these policies and procedures are new, we cannot determine the adequacy of these intended controls.

Recommendations

49. LAMCC should ensure that all staff are aware of the policies and procedures related to equipment and fixed assets and that all LAMCC property remains on the premises, is appropriately identified with property tags, and reported in the accounting records. Similarly, staff need to be trained to report damaged, unusable, or missing equipment or assets so that these properties may be properly removed from the books.

²⁴ The LA City Administrative Code stipulates that “each department and office, except those departments given control of their own definite revenues or funds, to which furniture or equipment has been purchased for or assigned to by the City shall maintain a current and perpetual stock record of such furniture and equipment. The Controller shall prescribe the items of furniture and equipment to be contained in the records, information requirements on records, and the procedures for controlling furniture and equipment. Department Heads shall certify to the best of their knowledge that their records are complete, correct and the equipment is in their official possession or under charge of their department. The Controller shall make such examinations of the perpetual stock records, summaries, or lists required by this section as deemed necessary.”

Section 7. Financial Reporting

FINDING 18. AUDITS OF THE LAMCC'S FINANCIAL STATEMENTS WERE CONDUCTED ANNUALLY BUT MORE INFORMATION WOULD PROVIDE GREATER TRANSPARENCY AND ACCOUNTABILITY.

We assessed the LAMCC records to determine whether traditional financial controls were in place and reflected in the accuracy and reliability of financial reporting. We found that as required, it appears that annual financial statements were prepared by the LAMCC and Association and these were audited by an external audit firm. Our review of four years of audited financial statements finds:

- Annually, external certified public accounting firms issued unqualified opinions on the LAMCC statements and no management letter was written by the auditors.
- During the period of our audit, the management of the LAMCC chose to “omit the MD&A [Management Discussion and Analysis] from its annual basic financial statements. Inclusion of such MD&A within the annual basic financial statements has been determined to be necessary in order to comply with accounting principles generally accepted in the United States of America.”²⁵ This was noted by the Independent Auditor’s Reports in a statement that “The Commission has not presented management’s discussion and analysis that the Governmental Accounting Standards Board had determined is necessary to supplement, although not required to be part of, the basic financial statements.”
- Although the LAMCC is a local government agency, it is unclear whether the auditors followed the California State Controller’s guidelines for auditing such entities.
- The Joint Powers Agreement from 1976 stipulates that “The Controller of the Commission shall either make or contract with a certified public accountant or public accountant to make an annual audit of the accounts and records of the Commission” that is to follow the State Controller’s rules for special districts. However, the LAMCC is to pay for the audit. Yet, we found that the City Controller is not involved nor, does it appear it ever was involved in either directly auditing or securing the auditors for the annual LAMCC audit; however, these audits, at least during our period of review, were consistently conducted by independent CPAs. The most recent audited financial statements are for the year ended June 30, 2010; the Interim General Manager fired the incumbent independent auditor, hired a new auditor, and the audit for the year ended June 30, 2011 is in process.
- The Association, as a public benefit corporation, is required to annually file tax forms with the IRS—Form 990. This appears to have been appropriately done in the past—although like the financial statements noted above, the June 30, 2011 report has not yet been submitted.
- Our review of Commission Board minutes shows that the former General Manager provided financial reports to the Commissioners at most meetings; the minutes do not include the actual documents, but identify the presentation of the Income Statement for

²⁵ LAMCC Notes to the Financial Statements, Year Ended June 30, 2010.

the period and Statement of Cash Position, and that the former General Manager engaged in some relevant discussion. Annual budget presentations appear to have occurred each June, subsequent to the Budget and Finance Committee meeting and discussions of the proposed budget.

The Interim General Manager has developed a practice to formally submit financial information at each meeting in a binder to Commissioners prior to the meeting.

Recommendations

50. LAMCC is working independently with its new external auditors in the annual financial statement audit and we have not been apprised of the content of the financial statement audit report. However, the LAMCC should ensure that audits are completed on a timely basis, auditors follow, at a minimum, the guidelines set forth by the California State Controller, and consider adding the various elements to the financial statement reports, such as the MD & A (Management Discussion and Analysis), to make these documents more useful and informative to the users.
51. The Commission Board should work with the General Manager and establish the documents and reports it needs to be fully informed and to have sufficient information to make decisions relative to the LAMCC operations, and to ensure its long-term fiscal health and appropriate condition of its facilities.